

**AmRest Holdings N.V.**

**Consolidated Financial Statements as at and for the six months  
ended 30 June 2006**

## **AmRest Holdings N.V.**

### **Table of contents:**

	<b>Page</b>
<b>Consolidated income statement</b>	<b>3</b>
<b>Consolidated balance sheet</b>	<b>4</b>
<b>Consolidated statement of cash flows</b>	<b>5</b>
<b>Consolidated statement of changes in equity</b>	<b>6</b>
<b>Notes to the consolidated financial statements</b>	<b>7</b>

## AmRest Holdings N.V.

### Consolidated income statement for the six months ended 30 June 2006

<i>in thousands of Polish zloty</i>	Note	2006	2005 (restated)
Restaurant sales	3	280 009	227 863
Restaurant expenses:	5		
Cost of food		(94 470)	(76 851)
Direct marketing expenses		(14 157)	(12 515)
Direct depreciation and amortisation expenses		(18 448)	(14 096)
Payroll and employee benefits		(53 215)	(42 247)
Continuing franchise fees		(16 602)	(13 583)
Occupancy and other operating expenses		(48 874)	(39 402)
Total restaurant expenses		(245 766)	(198 694)
<b>Gross profit on sales</b>		34 243	29 169
General and administrative expenses (G&A)	5	(17 191)	(18 602)
Depreciation and amortisation expense (G&A)	5	(1 004)	(658)
Other operating income	6	1 646	2 252
Gain/(loss) on disposal of property, plant and equipment and intangibles	10	2 213	(717)
Impairment losses	5	(1 495)	(911)
Initial public offering expenses		-	(1 937)
<b>Operating profit</b>		18 412	8 596
Finance income	3,7	6 149	1 917
Finance cost	3,8	(2 825)	(6 092)
Share of profit of associates	3,30	346	99
<b>Profit before tax</b>	9	22 082	4 520
Income tax (expense)/benefit	3,9	(3 131)	3 434
<b>Profit for the period</b>	3	<b>18 951</b>	<b>7 954</b>
Attributable to:			
Minority interest		42	24
Equity holders of the parent		18 909	7 930
<b>Basic and diluted earnings per share in Polish zloty</b>	28	<b>1,40</b>	<b>0,70</b>

*See accompanying notes to the consolidated financial statements.*

## AmRest Holdings N.V.

### Consolidated balance sheet as at 30 June 2006 and 31 December 2005

<i>in thousands of Polish zloty</i>	Note	2006	2005 (restated)
<b>Assets</b>			
Property, plant and equipment	10	184 626	174 141
Intangible assets	11	15 205	16 280
Goodwill	12	23 757	4 765
Investment in associates	3, 30	940	574
Other non-current assets	13	18 468	17 342
Deferred tax asset	9	10 358	11 540
<b>Total non-current assets</b>		<u>253 354</u>	<u>224 642</u>
Inventories	14	7 416	5 973
Trade and other receivables	15	9 481	13 463
Income tax receivable		1 463	5 282
Other current assets	16	5 622	4 788
Cash and cash equivalents	17	20 613	31 575
Assets held for sale	18	1 700	3 219
<b>Total current assets</b>		<u>46 295</u>	<u>64 300</u>
<b>Total assets</b>	3	<u>299 649</u>	<u>288 942</u>
<b>Equity</b>			
Share capital	19	519	519
Reserves		218 834	218 640
Accumulated deficit		(95 514)	(117 641)
Profit for the period		18 909	22 127
Translation reserve		(3 337)	(574)
<b>Equity attributable to shareholders of the parent</b>		<u>139 411</u>	<u>123 071</u>
<b>Minority interest</b>		<u>62</u>	<u>20</u>
<b>Total equity</b>		<u>139 473</u>	<u>123 091</u>
<b>Liabilities</b>			
Interest-bearing loans and borrowings	20	73 590	80 440
Finance lease liabilities	2,25	3 429	3 237
Employee benefits	21	825	791
Provisions	22	4 547	4 690
Deferred tax liabilities	9	1 012	1 263
Other non-current liabilities	23	2 477	2 168
<b>Total non-current liabilities</b>		<u>85 880</u>	<u>92 589</u>
Interest-bearing loans and borrowings	20	9 362	18 321
Finance lease liabilities	2,25	63	45
Trade and other accounts payable	24	64 871	54 896
<b>Total current liabilities</b>		<u>74 296</u>	<u>73 262</u>
<b>Total liabilities</b>	3	<u>160 176</u>	<u>165 851</u>
<b>Total equity and liabilities</b>		<u>299 649</u>	<u>288 942</u>

*See accompanying notes to the consolidated financial statements.*

## AmRest Holdings N.V.

### Consolidated statement of cash flows for the six months ended 30 June 2006

<i>in thousands of Polish zloty</i>	Note	2006	2005 (restated)
<b>Cash flows from operating activities</b>			
Profit before tax		22 082	4 520
Adjustments for:			
Share of profit of associates	30	(346)	(99)
Amortization	11	2 815	1 051
Depreciation	10	16 637	13 703
Interest (income)/expense, net	7,8	2 009	4 307
Foreign exchange loss/(gain), net	7,8	(2 544)	779
Loss/(gain) on disposal of property, plant, equipment and intangibles	10	(2 213)	717
Impairment of assets	5	1 404	911
Equity-settled share based payments expenses	21	194	66
Forgiveness of loans	7,31	(3 396)	-
Working capital changes:			
Change in receivables		8 159	79
Change in inventories		(53)	251
Change in other assets		(1 891)	(7 583)
Change in payables and other liabilities		7 147	(2 646)
Change in other provisions and employee benefits		(2 498)	(1 340)
Income taxes paid		(1 671)	2 648
Interest paid		(1 374)	(3 406)
Other		(3 110)	271
<b>Net cash provided by operating activities</b>		<b>41 351</b>	<b>14 229</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired	4	(20 235)	(6 581)
Proceeds from the sale of property, plant and equipment	10,18	3 952	1 932
Proceeds from the sale on intangible assets		-	6
Acquisition of property, plant and equipment	10	(19 890)	(19 405)
Acquisition of intangible assets	11	(486)	(380)
Acquisition of investments in associates	30	(10)	-
<b>Net cash used in investing activities</b>		<b>(36 669)</b>	<b>(24 428)</b>
<b>Cash flows from financing activities</b>			
Cash contribution from shareholders		-	77 866
Proceeds from borrowings		5 643	154 344
Repayment of borrowings		(20 693)	(214 716)
Repayment of finance lease		(210)	(166)
<b>Net cash (used in) /provided by financing activities</b>		<b>(15 260)</b>	<b>17 328</b>
<b>Net change in cash and cash equivalents</b>		<b>(10 578)</b>	<b>7 129</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>31 575</b>	<b>11 486</b>
<b>Effect of foreign exchange rate movements</b>		<b>(384)</b>	<b>13</b>
<b>Cash and cash equivalents, end of period</b>		<b>20 613</b>	<b>18 628</b>

*See accompanying notes to the consolidated financial statements.*

## AmRest Holdings N.V.

### Consolidated statement of changes in equity for the six months ended 30 June 2006

*in thousands of Polish zloty*

**As at 01.01.2005**

**(previously reported)**

Correction of accounting  
treatment for lease arrangement  
(Note 2)

**As at 01.01.2005 (restated)**

Employees share option scheme -  
Share-based payments liabilities  
assumed by shareholder (Note 21)  
Employees share option scheme –  
value of employee services  
(Note 21)

Currency translation differences

Profit for the period

Issue of shares

**As at 30.06.2005**

**As at 01.01.2006**

Employees share option scheme –  
value of employee services  
(Note 21)

Currency translation differences

Profit for the period

**As at 30.06.2006**

	Attributable to equity holders of the Company							Minority Interest	Total	
	Share Capital (Note 19)	Share premium	Share options (Note 21)	Other reserves (Note 19)	Total Reserves	Accumulated deficit	Currency translations			Total
<b><u>As at 01.01.2005</u></b> <b><u>(previously reported)</u></b>	<b>373</b>	132 582	-	6 191	<b>138 773</b>	<b>(117 198)</b>	<b>141</b>	<b>22 089</b>	<b>36</b>	<b>22 125</b>
Correction of accounting treatment for lease arrangement (Note 2)	-	-	-	-	-	<b>(440)</b>	-	<b>(440)</b>	-	<b>(440)</b>
<b><u>As at 01.01.2005 (restated)</u></b>	<b>373</b>	132 582	-	6 191	<b>138 773</b>	<b>(117 638)</b>	<b>141</b>	<b>21 649</b>	<b>36</b>	<b>21 685</b>
Employees share option scheme - Share-based payments liabilities assumed by shareholder (Note 21)	-	-	528	-	<b>528</b>	-	-	<b>528</b>	-	<b>528</b>
Employees share option scheme – value of employee services (Note 21)	-	-	66	-	<b>66</b>	-	-	<b>66</b>	-	<b>66</b>
Currency translation differences	-	-	-	-	-	-	<b>(644)</b>	<b>(644)</b>	-	<b>(644)</b>
Profit for the period	-	-	-	-	-	<b>7 930</b>	-	<b>7 930</b>	<b>24</b>	<b>7 954</b>
Issue of shares	<b>146</b>	77 720	-	-	<b>77 720</b>	-	-	<b>77 866</b>	-	<b>77 866</b>
<b><u>As at 30.06.2005</u></b>	<b>519</b>	210 302	594	6 191	<b>217 087</b>	<b>(109 708)</b>	<b>(503)</b>	<b>107 395</b>	<b>60</b>	<b>107 455</b>
<b><u>As at 01.01.2006</u></b>	<b>519</b>	210 302	2 147	6 191	<b>218 640</b>	<b>(95 514)</b>	<b>(574)</b>	<b>123 071</b>	<b>20</b>	<b>123 091</b>
Employees share option scheme – value of employee services (Note 21)	-	-	194	-	<b>194</b>	-	-	<b>194</b>	-	<b>194</b>
Currency translation differences	-	-	-	-	-	-	<b>(2 763)</b>	<b>(2 763)</b>	-	<b>(2 763)</b>
Profit for the period	-	-	-	-	-	<b>18 909</b>	-	<b>18 909</b>	<b>42</b>	<b>18 951</b>
<b><u>As at 30.06.2006</u></b>	<b>519</b>	210 302	2 341	6 191	<b>218 834</b>	<b>(76 605)</b>	<b>(3 337)</b>	<b>139 411</b>	<b>62</b>	<b>139 473</b>

See accompanying notes to the consolidated financial statements.

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements** (in thousands of Polish zloty unless otherwise stated)

#### **1 Company 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 Rokin 55, 1012KK Amsterdam, Postbus 990, 1000 AZ 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 six months ended 30 June 2006 comprise the data on the Company, its subsidiaries and on the Group's equity interest in associates.

The following Consolidated Financial Statements were approved by the Management Board on 22 September 2006 r.

The principal activity of the Group, conducted by its subsidiaries in Poland, the Czech Republic and Hungary, is to operate Kentucky Fried Chicken („KFC”) and Pizza Hut franchised restaurants, and solely in Poland „Ice\*Land” ice cream outlets, „Rodeo Drive” and „Freshpoint” restaurants.

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 is 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. Moreover, IRI also sold part of its shares as a result of the Company's IPO on the stock exchange.

As at 31 December 2005 and 30 June 2006 the Company's largest shareholder with a 39,54% voting rights and ownership interest remains IRI.

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 Company 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.

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

The table below presents a summary of the subsidiaries included within the Group at 30 June 2006:

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 Pizza Hut and KFC restaurants in Poland	AmRest Holdings N.V.	100.00 %	December 2000
American Restaurants s.r.o.	Prague, Czech Republic	Operating Pizza Hut and KFC restaurants in the Czech Republic	AmRest Holdings N.V.	100.00 %	December 2000
Kentucky System, Kft	Budapest, Hungary	Operating Pizza Hut and KFC restaurants in Hungary	American Restaurants Sp. z o.o.	100.00 %	30 June 2006
Galeria Arka Sp. z o.o.	Warsaw, Poland	Lessee of a location where a restaurant is planned to be opened	American Restaurants Sp. z o.o.	100.00 %	March 2005
Amrest Ukraina t.o.w.	Kiev, Ukraine	Established to develop and operate Pizza Hut restaurants in the Ukraine	American Restaurants Sp. z o.o.	100.00 %	December 2005
International Fast Food Polska Sp. z o.o.	Wroclaw, Poland	No current activities	American Restaurants Sp. z o.o.	100.00 %	January 2001
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
Fried Chicken s.r.o. (former miklik's food s.r.o.)	Prague, Czech Republic	No current activities	Pizza Hut s.r.o.	100.00%	May 2005
Grifex I Sp. z o.o.*	Wroclaw, Poland	Operates a childrens' activity centre in Warsaw which includes a KFC restaurant	American Restaurants Sp. z o.o.	48.00 %	September 2003

\* 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.

In the current period a subsidiary Kentucky System Kft of Hungary was acquired. See (Note 4). There were no other material changes in the structure of the Group.

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

The Group's associated companies at 30 June 2006 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 initial investment
Worldwide Communication Services LLC	Nevada, USA	Marketing activity for the Group	American Restaurants Sp. z o.o.	33.33 %	October 2003
Global Communication Services Sp. z o.o. in liquidation	Warsaw, Poland	No current activities	Worldwide Communication Services LLC	33.33 %	May 2002
Synergy Marketing Partners Sp. z o.o.	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.	Prague, Czech Republic	Marketing activity for the Group	Synergy Marketing Partners Sp. z o.o.	24.00%	Established February 2005
SCM Sp. z o.o.	Chotomów, Poland	Restaurant supply services provided to the Group	American Restaurants Sp. z o.o.	45.00%	April 2005

\* The Group holds indirectly 17.33% of voting rights and ownership in Red 8 Communications Group Sp. z o.o. It has significant influence over this company as it is a subsidiary of the associate - Worldwide Communication Services LLC which holds 52% of voting rights in that company.

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements** (in thousands of Polish zloty unless otherwise stated)

#### **(b) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB) as adopted by the European Union, further to the IAS Regulation (EC 1606/2002).

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to IAS 19, 'Actuarial gains and losses, Group plans and disclosures', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group.
- Amendment to IAS 39, Amendment to 'The fair value option', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group.
- Amendment to IAS 21, Amendment 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group.
- Amendment to IAS 39, Amendment 'Cash flow hedge accounting of forecast intragroup transactions', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group.
- Amendment to IAS 39 and IFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group.
- IFRS 6, 'Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group.
- IFRIC 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts. This interpretation has no material impact on the financial statements.
- IFRIC 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and
- IFRIC 6, 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC 7, 'Applying the Restatement Approach under IAS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;
- IFRIC 8, 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of IFRIC 8 on the Group's operations but expect the interpretation will have no material impact on the financial statements;

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements**

**(in thousands of Polish zloty unless otherwise stated)**

- IFRIC 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management do not expect the interpretation to be relevant for the Group; and
- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that standard should not have a significant impact on disclosure. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements** (in thousands of Polish zloty unless otherwise stated)

#### **(c) Basis of preparation**

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

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.

Judgements 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. The accounting policies have been applied consistently by Group entities.

#### **(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.

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements**

(in thousands of Polish zloty unless otherwise stated)

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 currency**

#### *Functional 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).

As the majority of its operations and transactions are PLN denominated, the consolidated financial statements are presented in PLN which is the Group functional and presentation currency.

#### *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.

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements** (in thousands of Polish zloty unless otherwise stated)

#### *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 has a currency of a hyperinflationary economy.

#### **(f) Franchise, license and other fees**

As noted in Note 1(a) above, 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 are expensed as incurred. Renewal fees are amortized over the renewal period when a renewal agreement becomes effective.

The initial fees paid are approximately USD 39 600 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.

#### **(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".

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements** (in thousands of Polish zloty unless otherwise stated)

#### *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.

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### (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 (see below) 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 and KFC 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 <sup>‡</sup> |
| • 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.

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements** (in thousands of Polish zloty unless otherwise stated)

#### **(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, 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.

##### *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

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements**

(in thousands of Polish zloty unless otherwise stated)

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.

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 taking 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.

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements** (in thousands of Polish zloty unless otherwise stated)

#### *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*

Mandatory pension contributions are accounted for as defined contribution plan on accrual basis and presented in Profit and Loss Account in the line "Payroll and employee benefits".

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements** (in thousands of Polish zloty unless otherwise stated)

#### **(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 of the company 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 amortized cost.

#### **(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 from 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 temporary differences are recognized on the initial recognition of goodwill.

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements** (in thousands of Polish zloty unless otherwise stated)

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. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

As at the balance sheet dates, the Group did not have any derivative financial instruments.

#### **(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.

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 2 Correction of accounting treatment for lease arrangement

In 2006, the Group concluded that leasing contract for land and building related to one of the restaurants located in the Czech Republic was inappropriately recognised in previous years as an operating lease. According to the *IAS 17 Leases*, the above mentioned arrangement meets the criteria of finance lease and should be classified as such. The arrangement transfers ownership of the property to the lessee by the end of the lease term. 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. The aim of the adjustments was to present the transaction as if it has been classified as finance lease from the beginning of the earliest period presented. Adjustment to previously published financial statements related to the change in the accounting treatment of the lease arrangement is presented in the table below:

	6 months ended <u>30 June 2005</u>
Adjustment to the consolidated income statement:	
Increase of direct depreciation and amortisation expenses (restaurant expenses)	(71)
Decrease of occupancy expenses (restaurant expenses)	324
Increase of finance costs	(302)
Decrease of income tax	<u>12</u>
Decrease of profit for the period	(37)
 Change of basic and diluted earnings per share	 -
	1 January 2005
Adjustment to the consolidated balance sheet:	
Increase of tangible fixed assets (cost – 3 482 TPLN, accumulated depreciation – 532 TPLN (Note 10))	2 950
Increase of accumulated deficit	440
Decrease of translation reserve	(22)
Increase of finance lease liabilities	(3 368)
	31 December 2005
Adjustment to the consolidated balance sheet:	
Increase of tangible fixed assets (cost – 3 450 TPLN, accumulated depreciation – 667 TPLN (Note 10))	2 783
Increase of deferred tax asset	10
Increase of accumulated deficit	526
Decrease of translation reserve	(37)
Increase of finance lease liabilities (short term portion: 45 TPN, long term portion: 3 237 TPLN (Note 25 )	(3 282)

The above presented adjustments relate to the geographical segment 'Czech Republic'. Financial data of the segment for the comparable period for the purpose of presentation in Note 3 was restated.

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 3 Segment reporting

##### *Geographical segments*

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

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 six months ended 30 June 2006 and comparable period ended 30 June 2005 (for balance sheet items 31 December 2005) is as follows:

	Czech			
	Poland	Republic	Unallocated	Total
<u>2006</u>				
Revenue from external customers	200 530	79 479	-	280 009
Inter-segment revenue	-	-	-	-
Operating profit/segment result	13 978	5 694	(1 260)	18 412
Finance income				6 149
Finance cost				(2 825)
Share of profit of associates (Note 30)	346	-	-	346
Income tax				(3 131)
Profit for the period				18 951
Segment assets	192 143	82 755	-	274 898
Investments in associates (Note 30)	940	-	-	940
Unallocated corporate assets	-	-	23 811	23 811
Consolidated total assets				299 649
Segment liabilities	47 269	18 029		65 298
Unallocated corporate liabilities			94 878	94 878
Consolidated total liabilities				160 176
Depreciation (Note 10)	11 246	5 391	-	16 637
Amortization (Note 11)	2 488	327	-	2 815
Capital investments (Note 10, 11, 12)	33 031	6 011	-	39 042
Impairment of fixed assets (Note 10)	611	493	-	1 104
Impairment of trade receivables (Note 15)	-	-	-	-

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

	Poland	Czech Republic	Unallocated	Total
<u>2005</u>				
Revenue from external customers	163 416	64 447	-	227 863
Inter-segment revenue	-	-	-	-
Operating profit/segment result	6 400	2 850	(654)	8 596
Finance income				1 917
Finance cost				(6 092)
Share of profit of associates (Note 30)	99	-	-	99
Income tax				3 434
Profit for the period				7 954
Segment assets	191 436	79 801	-	271 237
Investments in associates (Note 30)	574	-	-	574
Unallocated corporate assets	-	-	17 131	17 131
Consolidated total assets				288 942
Segment liabilities	44 442	17 468	-	61 910
Unallocated corporate liabilities	-	-	103 941	103 941
Consolidated total liabilities				165 851
Depreciation (Note 10)	9 607	4 096	-	13 703
Amortization (Note 11)	848	203	-	1 051
Capital investments (Note 10, 11, 12)	13 466	10 330	-	23 769
Impairment of fixed assets (Note 10)	630	281	-	911
Impairment of trade receivables (Note 15)	-	-	-	-

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, liabilities (including borrowings and lease liabilities) and transactions of AmRest Holdings N.V., AmRest Ukraine t.o.w., corporate assets and liabilities of Kentucky System Kft. and amounts relating to income tax.

Comparative financial data of the 'Czech Republic' segment was restated in order to present the adjustment to the lease arrangement as described in Note 2.

#### 4 Acquisition of subsidiaries and associates

##### *Acquisition of Kentucky System Kft.*

On 30 June 2006 the Group acquired 100% shares in equity and voting rights of Kentucky System, Kft. (KS) with registered office in Budapest. Following the transaction, the Group became the owner of 13 Pizza Hut restaurants and 4 KFC restaurants in Hungary. Running the above mentioned restaurants is the main activity of KS. The purchase price amounted to USD 6 500 000 and was paid in cash. The transaction marked another step in the strengthening of the AmRest Group's market position in the Central and Eastern Europe and in the implementation of the Group's strategy.

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

The fair value of assets acquired and liabilities assumed was as follows (in thousands of Polish zloty):

Property, plant and equipment	5 579
Intangible assets	712
Other non-current assets	281
Inventories	1 390
Trade and other receivables	358
Cash and cash equivalents	835
Other assets	71
Trade and other payables	(6 822)
Net assets acquired	2 404
Goodwill (Note 12)	18 666
Cash paid on acquisition	21 070
Net cash and cash equivalents in subsidiary acquired	(835)
Cash outflow on acquisition	20 235

Goodwill on the acquisition of KS is related mainly to the benefits of getting access to the Hungarian restaurant market and its customers. Due to the characteristic of the Group's restaurant operations, the Group does not hold a register of its customers, they are not bound by any contract and are not individually identified. According to *IAS 38 – Intangible Assets*, the above mentioned items do not meet the criteria for classification as separate intangible assets, therefore they are included in the amount recognised as goodwill. Restaurants located in Hungary operate in accordance with franchise agreements similar to franchise agreements concluded with restaurants in Poland and the Czech Republic.

Acquisition of KS did not involve any additional significant costs.

If the acquisition presented above had occurred on 1 January 2006, estimated Group revenue would have been 299 448 TPLN, and profit before allocations would have been 18 287 TPLN. These amounts have been calculated using the Group's accounting policies.

On 19 September 2006 Kentucky System, Kft. changed its name to American Restaurants Kft.

#### *Other transactions*

On February 3<sup>rd</sup> 2006, the Group acquired further 10% of shares in SCM sp. z o.o. (Note 30). Following the acquisition, the Group increased its equity interest in SCM to 45% (compared to 35% as at 31 December 2005).

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 5 Operating expenses

Operating expenses are as follows:

	2006	2005
Depreciation (Note 10)	16 637	13 703
Amortisation (Note 11)	2 815	1 051
Food and materials	101 239	80 754
Utilities	10 590	8 187
External services	17 005	16 238
Payroll	47 878	41 794
Social security and other employee benefits	12 328	8 851
Operating leases (occupancy costs) (Note 26)	21 157	18 187
Marketing expenses	14 157	12 515
Continuing franchise fees	16 602	13 583
Insurance	788	1 072
Business travel	1 155	806
Onerous contracts	14	77
Other	1 596	1 136
	<u>263 961</u>	<u>217 954</u>
Total restaurant expenses	245 766	198 694
Depreciation and amortisation expense (G&A)	1 004	658
Other general and administrative expenses	17 191	18 602
	<u>263 961</u>	<u>217 954</u>
Impairment of inventory (Note 14)	91	-
Impairment of assets held for sale (Note 18)	300	-
Impairment of property, plant and equipment (Note 10)	1 104	911
Impairment losses, total	<u>1 495</u>	<u>911</u>

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 6 Other operating income

	2006	2005
Management fee	174	1 071
Sublease income (Note 26)	1 005	947
Other operating income	467	234
	<u>1 646</u>	<u>2 252</u>

#### 7 Finance income

	2006	2005
Interest income	209	196
Foreign exchange gain, net	2 544	-
Forgiveness of loan from related party (Note 31)	3 396	-
Other	-	1 721
	<u>6 149</u>	<u>1 917</u>

#### 8 Finance costs

	2006	2005
Interest expense	(2 218)	(4 503)
Foreign exchange loss, net	-	(779)
Other	(607)	(810)
	<u>(2 825)</u>	<u>(6 092)</u>

#### 9 Taxation

	2006	2005
Current tax	2 200	(480)
Change in deferred tax	931	(2 954)
Tax presented in the profit and loss account	<u>3 131</u>	<u>(3 434)</u>

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

	Netherlands	Poland	Czech Republic	Hungary	Ukraine
2006	34.5%	19%	24%	16%	20%
2005	34.5%	19%	26%	N/a	20%

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

	Netherlands	Poland	Czech Republic	Hungary	Ukraine
2006	34.5%	19%	24%	16%	20%
2005	34.5%	19%	24%	N/a	20%

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

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:

	6 months ended 30 June 2006	6 months ended 30 June 2005
Profit before tax	22 082	4 520
Tax calculated at domestic tax rates applicable to profits in the respective countries	5 131	709
Permanent differences	498	803
Utilisation of previously unrecognised tax losses	(1 840)	(1 679)
Deferred tax asset recognised in the period for previously unrecognised tax losses	(826)	(3 204)
Other differences	168	(63)
Tax presented in the profit and loss account	<u>3 131</u>	<u>(3 434)</u>

The weighted average applicable tax rate was 23% (30/06/2005: 16%). The increase 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:

	2006	2005
Deferred tax asset		
Deferred tax asset to be recovered after more than 12 months	(6 394)	(8 057)
Deferred tax asset to be recovered within 12 months	<u>(3 964)</u>	<u>(3 483)</u>
	<u>(10 358)</u>	<u>(11 540)</u>
Deferred tax liability		
Deferred tax liability to be recovered after more than 12 months	509	760
Deferred tax liability to be recovered within 12 months	<u>503</u>	<u>503</u>
	<u>1 012</u>	<u>1 263</u>

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

	Deferred tax asset		Deferred tax liability	
	30.06 2006	31.12 2005	30.06 2006	31.12 2005
Tangible fixed assets (depreciation)	(6 251)	(5 760)	1 012	1 263
Receivables (provisions)	(492)	41	-	-
Provisions and other write downs	(2 770)	(1 229)	-	-
Tax losses	(773)	(4 605)	-	-
Other differences	(72)	13	-	-
	<u>(10 358)</u>	<u>(11 540)</u>	<u>1 012</u>	<u>1 263</u>

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

Temporary differences before offsetting are as follows:

	Deferred tax asset		Deferred tax liability	
	30.06 2006	31.12 2005	30.06 2006	31.12 2005
Tangible fixed assets (depreciation)	(6 516)	(5 760)	1 277	1 263
Receivables (provisions)	(492)	(492)	-	533
Provisions and other write downs	(2 770)	(1 229)	-	-
Tax losses	(773)	(4 605)	-	-
Other differences	(137)	-	65	13
	<u>(10 688)</u>	<u>(12 086)</u>	<u>1 342</u>	<u>1 809</u>

Tax losses carried forward as at 30 June 2006 are as follows:

Poland	6 447
Czech Republic	2 912
The Netherlands	2 555
Hungary	12
Ukraine	732
	<u>12 658</u>

Year of expiry	Tax losses total value	Tax losses included in deferred tax asset	Tax losses for which no deferred tax asset was recognised
2006	5	-	5
2007	1 469	720	749
2008	7 152	3 348	3 804
2009	743	-	743
Without limits	3 289	-	3 289
	<u>12 658</u>	<u>4 068</u>	<u>8 590</u>

At 30 June 2006, the Group has recognized a deferred tax asset relating to 4 068 TPLN of the above tax loss carry forwards, based on its forecasts of stable future taxable income over the allowable loss carry forward period. No deferred tax asset has been recognized with respect to the remaining tax losses carry forwards related mostly to the Netherlands and Ukraine due to uncertainty regarding their realization and no evidence of taxable profits in the past. The Group does not consider the recognition of these losses as deferred tax asset in foreseeable future.

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 10 Property, plant and equipment

Movements in property, plant and equipment in 2006 and 2005 can be presented as follows:

<b>2006</b>	Land	Buildings & restaurant development assets	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
<b>Acquisition cost</b>							
Balance at 31/12/2005	1 124	225 866	119 480	688	5 338	6 354	358 850
Reclassification of operating lease to finance lease (Note 3)	788	2 612	-	-	50	-	3 450
Balance at 1/1/2006 (restated)	1 912	228 478	119 480	688	5 388	6 354	362 300
Acquisitions (Note 4)	-	3 565	1 064	113	837	-	5 579
Additions	-	1 330	5 206	-	503	12 851	19 890
Disposals	-	(3 759)	-	(139)	(579)	(1 044)	(5 521)
Transfers	-	6 747	2 172	-	38	(9 226)	(269)
Exchange rate differences	56	3 129	2 844	-	3	240	6 272
Balance at 30/06/2006	1 968	239 490	130 766	662	6 190	9 175	388 251
<b>Accumulated depreciation</b>							
Balance at 31/12/2005	-	104 023	72 209	523	3 559	-	180 314
Reclassification of operating lease to finance lease (Note 3)	-	620	-	-	47	-	667
Balance at 1/1/2006 (restated)	-	104 643	72 209	523	3 606	-	180 981
Additions	-	9 931	6 506	40	160	-	16 637
Disposals	-	(3 338)	-	(63)	(179)	-	(3 580)
Exchange rate differences	-	1 170	1 534	-	3	-	2 707
Balance at 30/06/2006	-	112 406	80 249	500	3 590	-	196 745
<b>Impairment losses</b>							
Balance at 1/1/2006	-	5 450	-	-	-	1 728	7 178
Additions	-	1 104	-	-	-	-	1 104
Disposals	-	(693)	-	-	-	(728)	(1 421)
Transfers	-	32	-	-	-	(32)	-
Exchange rate differences	-	11	-	-	-	8	19
Balance at 30/06/2006	-	5 904	-	-	-	976	6 880
<b>Net book value 1/1/2006</b>	<b>1 912</b>	<b>118 385</b>	<b>47 271</b>	<b>165</b>	<b>1 782</b>	<b>4 626</b>	<b>174 141</b>
<b>Net book value 30/06/2006</b>	<b>1 968</b>	<b>121 180</b>	<b>50 517</b>	<b>162</b>	<b>2 600</b>	<b>8 199</b>	<b>184 626</b>

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

<b>2005</b>	Land	Buildings & restaurant development assets	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
<b>Acquisition cost</b>							
Balance at 31/12/2004	1 310	212 672	108 226	860	5 635	9 249	337 952
Reclassification of operating lease to finance lease (Note 3)	796	2 636	-	-	50	-	3 482
Balance at 1/1/2005 (restated)	2 106	215 308	108 226	860	5 685	9 249	341 434
Acquisition	-	1 429	856	-	-	-	2 285
Additional additions	-	1 302	3 789	-	3 388	10 926	19 405
Disposals	-	(1 192)	(1 899)	(133)	(3 604)	-	(6 828)
Transfers	-	5 574	2 500	-	-	(11 275)	(3 201)
Exchange rate differences	2	72	71	-	-	34	179
Balance at 30/06/2005	2 108	222 493	113 543	727	5 469	8 934	353 274
<b>Accumulated depreciation</b>							
Balance at 31/12/2004	-	91 156	64 980	490	4 037	-	160 663
Reclassification of operating lease to finance lease (Note 3)	-	494	-	-	38	-	532
Balance at 1/1/2005 (restated)	-	91 650	64 980	490	4 075	-	161 195
Additions	-	8 030	5 469	48	156	-	13 703
Disposals	-	(500)	(1 796)	(38)	(1 037)	-	(3 371)
Transfers	-	197	(169)	-	-	-	28
Exchange rate differences	-	30	30	-	1	-	61
Balance at 30/06/2005	-	99 407	68 514	500	3 195	-	171 616
<b>Impairment losses</b>							
Balance at 1/1/2005	-	6 662	-	-	-	1 729	8 391
Additions	-	792	12	-	-	107	911
Disposals	-	(704)	-	-	-	-	(704)
Balance at 30/06/2005	-	6 750	12	-	-	1 836	8 598
<b>Net book value 1/1/2005</b>	<b>2 106</b>	<b>116 996</b>	<b>43 246</b>	<b>370</b>	<b>1 610</b>	<b>7 520</b>	<b>171 848</b>
<b>Net book value 30/06/2005</b>	<b>2 108</b>	<b>116 336</b>	<b>45 017</b>	<b>227</b>	<b>2 274</b>	<b>7 098</b>	<b>173 060</b>

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

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

	Land	Buildings	Other tangible assets	Total
Acquisition cost at 30/06/2006	844	2 793	53	3 690
Accumulated depreciation at 30/06/2006	-	733	53	786
Net book value 30/06/2006	844	2 060	-	2 904
Acquisition cost at 30/06/2005	798	2 644	50	3 492
Accumulated depreciation at 30/06/2005	-	561	43	604
Net book value 30/06/2005	798	2 083	7	2 888

A calculation of the loss on the disposal of fixed assets and a summary of impairment losses incurred during the period of six months ended 30 June 2005 and six months ended 30 June 2006 are presented in the table below:

	2006	2005
Proceeds from the sale of property, plant and equipment and intangible assets	3 952	2 036
Net book value of property, plant and equipment and intangible assets disposed	(3 160)	(3 457)
Reversal of impairment of property, plant and equipment disposals	1 421	704
Gain/(Loss) on disposal of property, plant and equipment and intangibles	2 213	(717)

The gain and reversal of impairment relate generally to different items of property and transactions. The impairment was recorded in previous periods and there was no reasonable evidence to reverse it before actual sale occurred.

Impairment losses recognised in 2006 and 2005 relate primarily to property, plant and equipment of underperforming restaurants where either a decision has been made to close the restaurant or the restaurant assets or a portion of the assets (primarily leasehold improvements), were not considered to be recoverable based on an analysis of future estimated discounted cash flows. The estimates of recoverable amount were based on the restaurants value in use, determined using a discount rate of approximately 7%.

The net book value of property, plant and equipment used as collateral for borrowings amounted to 157 621 TPLN.

Depreciation expense has been charged in 'restaurant expenses' – 15 811 TPLN (previous period: 13 263 TPLN) and in general and administrative (G&A) expenses - 826 TPLN (previous period: 430 TPLN).

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 11 Intangible assets

Intangible assets movements in 2006 and 2005 can be presented as follows:

2006	Trademarks	Favourable leases	Rights to use Pizza Hut and KFC trademarks	Other intangible assets	Total
<b>Acquisition cost</b>					
Balance at 1/1/2006	338	8 389	14 851	8 843	32 421
Acquisitions (Note 4)	-	-	128	584	712
Additions	-	-	253	233	486
Disposals	-	-	-	(22)	(22)
Transfers	-	-	250	19	269
Exchange rate differences	23	-	368	70	461
Balance at 30/06/2006	361	8 389	15 850	9 727	34 327
<b>Accumulated amortisation</b>					
Balance at 1/1/2006	39	1 377	9 642	4 979	16 037
Additions	35	1 324	803	653	2 815
Disposals	-	-	-	(22)	(22)
Exchange rate differences	4	-	179	9	192
Balance at 30/06/2006	78	2 701	10 624	5 619	19 022
<b>Impairment losses</b>					
Balance at 1/1/2006	-	-	62	42	104
Additions	-	-	-	-	-
Disposals	-	-	(4)	-	(4)
Exchange rate differences	-	-	-	-	-
Balance at 30/06/2006	-	-	58	42	100
<b>Net book value 1/1/2006</b>	<b>299</b>	<b>7 012</b>	<b>5 147</b>	<b>3 822</b>	<b>16 280</b>
<b>Net book value 30/06/2006</b>	<b>283</b>	<b>5 688</b>	<b>5 168</b>	<b>4 066</b>	<b>15 205</b>

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

2005	Trademarks	Favourable leases	Rights to use Pizza Hut and KFC trademarks	Other intangible assets	Total
<b>Acquisition cost</b>					
Balance at 1/1/2005	-	-	13 346	5 962	19 308
Acquisitions	1 000	1 731	-	-	2 731
Additions	-	-	119	261	380
Disposals	-	-	-	(142)	(142)
Transfers	-	-	-	3 201	3 201
Exchange rate differences	-	-	12	(14)	(2)
Balance at 30/06/2005	1 000	1 731	13 477	9 268	25 476
<b>Accumulated amortization</b>					
Balance at 1/1/2005	-	-	8 008	4 444	12 452
Additions	-	43	826	182	1 051
Disposals	-	-	-	(19)	(19)
Transfers	-	-	-	(28)	(28)
Exchange rate differences	-	-	5	-	5
Balance at 30/06/2005	-	43	8 839	4 579	13 461
<b>Impairment losses</b>					
Balance at 1/1/2005	-	-	104	-	104
Additions	-	-	-	-	-
Disposals	-	-	(9)	-	(9)
Exchange rate differences	-	-	-	-	-
Balance at 30/06/2005	-	-	95	-	95
<b>Net book value 1/1/2005</b>	-	-	<b>5 234</b>	<b>1 518</b>	<b>6 752</b>
<b>Net book value 30/06/2005</b>	<b>1 000</b>	<b>1 688</b>	<b>4 543</b>	<b>4 689</b>	<b>11 920</b>

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

Amortisation expense has been charged in 'restaurant expenses' – 2 637 TPLN (previous period: 833 TPLN) and in general and administrative (G&A) expenses - 178 TPLN (previous period: 218 TPLN).

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 12 Goodwill

Changes in goodwill can be presented as follows:

	6 months ended 30/06/2006	6 months ended 30/06/2005	12 months ended 31/12/2005
<b>Acquisition cost</b>			
Balance at the beginning of period	4 765	-	-
Additions (Note 4)	18 666	3 984	4 819
Disposals	-	-	-
Exchange rate differences	326	-	(54)
Balance at the end of period	<u>23 757</u>	<u>3 984</u>	<u>4 765</u>
<b>Impairment losses</b>			
Balance at the beginning of period	-	-	-
Additions	-	-	-
Disposals	-	-	-
Exchange rate differences	-	-	-
Balance at the end of period	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net book value, beginning of period</b>	<u><b>4 765</b></u>	<u><b>-</b></u>	<u><b>-</b></u>
<b>Net book value, end of period</b>	<u><b>23 757</b></u>	<u><b>3 984</b></u>	<u><b>4 765</b></u>

Goodwill in the amount of 18,666 TPLN relates to the acquisition of Kentucky System Kft in June 2006, described in Note 4, whereas goodwill additions in the amount 3 984 TPLN (4 765 TPLN as at 31 December 2005 after subsequent adjustments fair values) relates to the acquisition of miklik's food s.r.o. in May 2005.

#### *Impairment tests for cash-generating units containing goodwill*

As the restaurants acquired in the acquisition of miklik's food s.r.o. were converted to KFC restaurants and are operated by the same management team as the Group's other KFC restaurants in the Czech Republic, the Czech Republic business is considered to be a group of cash generating units expected to benefit from the synergies of combination. This group of cash generating units is consistent with the Company's reportable segment as determined in accordance with IAS 14, *Segment Reporting*.

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 7 per cent has been used in discounting the projected cash flows. Budgeted gross margin was assumed at the level of about 7% and growth rate used to extrapolate cash flow beyond budget period was 5%. See also Note 32.

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 13 Other non-current assets

The other non-current assets balance at 30 June 2006 and 31 December 2005 are summarized in the table below:

	2006	2005
Rent prepayments	13 615	13 586
Rent deposits	3 750	2 709
Other	1 103	1 047
	<u>18 468</u>	<u>17 342</u>

#### 14 Inventories

Inventories at 30 June 2006 and 31 December 2005 comprise primarily food and packaging materials used in restaurant operations. Inventories are stated net of provisions. The balance of provisions amounted to 685 TPLN and 594 TPLN as at 30 June 2006 and 31 December 2005, respectively. In the 6 months period ended 30 June 2006 the amount of provisions created was 91 TPLN. There were no additions of provisions in the corresponding period (Note 5). There are no inventories pledged as security of liabilities.

#### 15 Trade and other receivables

	2006	2005
Trade receivables - third party	6 968	7 572
Trade receivables - related parties (Note 31)	49	1 038
Other taxes receivable	4 417	6 793
Other receivables	1 354	1 348
Provisions for receivables	(3 307)	(3 288)
	<u>9 481</u>	<u>13 463</u>

#### 16 Other current assets

	2006	2005
Prepaid utilities	2 090	1 788
Prepaid rent	1 992	1 476
Prepaid insurance	339	715
Other	1 201	809
	<u>5 622</u>	<u>4 788</u>

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 17 Cash and cash equivalents

The cash and cash equivalents balance at 30 June 2006 and 31 December 2005 are summarized in the table below:

	2006	2005
Cash at bank	16 041	26 277
Cash in hand	4 572	5 298
	<u>20 613</u>	<u>31 575</u>

#### 18 Assets held for sale

In November 2005, the Group entered into an agreement with unrelated entity to sell two buildings located in Poland in which the Group operates restaurants to a third party for total consideration of 5 000 TPLN. The sale of one of the buildings took place in June 2006, whereas the sale of the second building was finalised after the balance sheet date in July 2006. Accordingly, at 30 June 2006, the building sold in July was still classified as held for sale and recorded at the lower of its carrying amount and its fair value less costs to sell, lower than the value previously recorded in the balance sheet.

At 30 June 2006 the fair value less costs to sell of the building was 1 700 TPLN. In order to adjust the carrying value to the fair value less costs to sell, the Company recognised an impairment loss of 300 TPLN.

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

#### 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 in Poland.

As of 30 June 2006, there are 13 500 000 shares issued and outstanding. All issued shares are fully paid. The authorized shares is 15 000 000 shares.

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 Company into PLN.

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 20 Interest-bearing loans and borrowings

The table below presents interest-bearing loans and borrowings at 30 June 2006 and 31 December 2005:

<b>Non-current</b>	<u>2006</u>	<u>2005</u>
Bank loans	73 590	77 381
Third party interest-bearing borrowings – YUM! (Note 31)	-	1 332
Related party interest-bearing borrowings - IRI (Note 31)	-	1 727
	<u>73 590</u>	<u>80 440</u>

<b>Current</b>	<u>2006</u>	<u>2005</u>
Bank loans	9 362	18 321
	<u>9 362</u>	<u>18 321</u>

<b>Bank loans</b>		<u>Effective interest rate</u>	<u>2006</u>	<u>2005</u>
PLN	BPH-PBK	6.62 %	1 188	1 466
PLN	ABN Amro Bank	5.02 %	5 633	24 778
CZK	ABN Amro Bank	2.97 %	76 131	69 458
			<u>82 952</u>	<u>95 702</u>

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

According to the loan agreement with ABN Amro Bank N.V. (“ABN Amro”) dated 4 April 2005, 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).

Please refer to Note 27 for details regarding security pledged for the above loans.

#### Loans from non-related parties

		<u>Effective interest rate</u>	<u>2006</u>	<u>2005</u>
USD	YUM!	8.00%	-	1 332

#### Loans from related parties

		<u>Effective interest rate</u>	<u>2006</u>	<u>2005</u>
USD	IRI	8.00%	-	1 727

Settlement of loans from YUM! and IRI was described in Note 31.

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

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

Maturity of long term loans as at 30 June 2006 and 31 December 2005 are presented below:

	2006	2005
Between 1-2 years	7 009	38 071
Between 2-5 year	66 581	42 369
Over 5 years	-	-
	<u>73 590</u>	<u>80 440</u>

The Group has the following undrawn borrowing facilities as at 30 June 2006 and 31 December 2005:

	2006	2005
Floating rates		
- expiring within one year	7 842	3 784
- expiring after one year	30 844	29 342
	<u>38 686</u>	<u>33 126</u>

## 21 Employee benefits

Employee benefits consist of long term service benefits and two 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 825 TPLN for the jubilee obligation as of 30 June 2006 and 791 TPLN as of 31 December 2005. Actuarial assumptions: discount rate: 7, expected turnover % per year: 40.

### *Stock 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 528 TPLN was transferred to the equity.

### *Stock 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, upon prior Board approval, 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 stock option plan was approved by the Board of Directors.

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

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
<u>Plan 1</u>				
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	<u>412 800</u>			
<u>Plan 2</u>				
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
Total	<u>154 300</u>			

The number and weighted average exercise prices of share options for the year ended 30 June 2006 and 31 December 2005 are as follows:

	Weighted average exercise price	2006 Number of options <u>Plan 2</u>	Number of options <u>Plan 1</u>	Weighted average exercise price	2005 Number of options <u>Plan 2</u>	Number of options <u>Plan 1</u>
Outstanding beginning of the period	PLN 20.6	79 300	203 900	PLN 18.9	-	342 210
Exercised during the period	PLN 13,6	-	(5 540)	PLN 18.5	-	(138 310)
Forfeited during the period	PLN 18,7	-	(12 460)	-	-	-
Granted during the period	PLN 48.4	<u>75 000</u>	-	PLN 24.2	<u>79 300</u>	-
Outstanding, end of the period	PLN 26.9	<u>154 300</u>	<u>185 900</u>	PLN 20.6	<u>79 300</u>	<u>203 900</u>
Exercisable at the end of the period	PLN 20.1	<u>13 760</u>	<u>155 592</u>	PLN 19.5	-	<u>146 773</u>

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 trinomial tree 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 trinomial tree model

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

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

	Granted in the period from 1/1/2006 to 30/06/2006	Granted in the period from 1/1/2005 to 31/12/2005		Granted till the end of 2004
	Plan 2	Plan 2	Plan 1	Plan 1
Average fair value at grant date	PLN 15.5	PLN 8.9	PLN 6.8	PLN 6.6
Average share price at grant date/date of valuation	PLN 48.3	PLN 25.7	n/a	n/a
Average exercise price	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)*	70%	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	7.0 years	7.5 years
Expected dividends (commencing 2008)	18.8%	18.8%	19.4%	19.4%
Risk free interest rate (based on interbank interest rates)	4.5%	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 fair value at grant date was based on actual volatility of quotations of the Company. The high actual volatility is an effect of the increase of share price of the Company over 2 times since the IPO.

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 in 6 months period ended 30 June 2006 and 30 June 2005 respectively, can be summarized as follows:

	2006	2005
Value of employee services	194	66
	194	66

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 22 Provisions

The tables below present a roll forward of provisions:

30 June 2006	01.01.2006	Additions	Used	Released	Translation reserve	30.06.2006
Onerous lease contracts	3 150	-	199	-	50	3 001
Provision for legal claims	1 540	6	-	-	-	1 546
	<u>4 690</u>	<u>6</u>	<u>199</u>	<u>-</u>	<u>50</u>	<u>4 547</u>
30 June 2005	01.01.2005					30.06.2005
Onerous lease contracts	1 482	625	-	178	-	1 929
Other	-	29	-	-	-	29
	<u>1 482</u>	<u>654</u>	<u>-</u>	<u>178</u>	<u>-</u>	<u>1 958</u>

#### *Provision for onerous lease 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 7% discount rate. The increase of discount rate by 10% (from 7% to 7.7%) would result in an increase of provision by 18 TPLN.

#### *Reserve for legal claims*

From time to time, the Group is involved in routine litigation and proceedings during the normal course of business. As of the balance sheet date, the Group has recorded the provision for legal claims in amount, 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). Current portion of this liabilities is presented in 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. Deferred income in relation to that amounted to 1 774 TPLN and 2 027 TPLN at 30 June 2006 and 31 December 2005, respectively.

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 24 Trade and other accounts payable

Trade and other accounts payable balance at 30 June 2006 and 31 December 2005 is summarized in the table below:

	2006	2005
Accounts payable to third parties:	55 973	46 341
Trade payables	37 118	31 502
Uninvoiced rent and deliveries for restaurants	9 028	5 133
Payables to employees	4 441	3 911
Social insurance liability	2 781	2 378
Other taxes payable	1 523	2 265
Advance payment received for sale of premises	1 000	1 000
Deposit received	82	152
Accounts payable to related parties (Note 31)	89	1 851
Accruals:	6 981	4 667
Bonuses to employees	2 713	2 668
Marketing services	2 040	-
Unused holidays	959	939
Professional services	1 269	1 015
Other	-	45
Deferred income current portion (Note 23)	751	507
Social Fund	524	532
Other accounts payable to third parties	553	998
	64 871	54 896

#### 25 Finance lease liabilities

Finance lease liabilities – present value of liability:

	2006	2005
No later than 1 year	63	45
Later than 1 year, no later than 5 years	314	272
Later than 5 years	3 115	2 965
	3 492	3 282

Finance lease liabilities – minimum lease payments:

	2006	2005
No later than 1 year	682	1 211
Later than 1 year, no later than 5 years	3 720	2 486
Later than 5 years	5 424	5 802
Total minimum lease payments	9 826	9 499
Future finance charges on finance leases	(6 334)	(6 217)
Present value of finance lease liabilities	3 492	3 282

The above finance lease liabilities relate to one contract – see Note 2 for details.

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 26 Operating leases

The Group has numerous non-cancellable 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.

Future minimum payments relating to non-cancellable operating leases at 30 June 2006 and 31 December 2005 are as follows:

	2006	2005
No later than 1 year	37 801	35 382
Later than 1 year, no later than 5 years	123 595	117 556
Later than 5 years	98 209	97 190
Total minimum lease payments	<u>259 605</u>	<u>250 128</u>

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 (divided into fixed and contingent part) for the 6 months period ended 30 June 2006 and 2005 respectively are as follows:

	2006			2005		
	Fixed part	Contingent part	Total	Fixed part	Contingent part	Total
Czech Republic	5 475	1 515	6 990	4 614	1 073	5 687
Poland	10 536	3 631	14 167	9 498	3 002	12 500
	<u>16 011</u>	<u>5 146</u>	<u>21 157</u>	<u>14 112</u>	<u>4 075</u>	<u>18 187</u>

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

	2006	2005
Czech Republic	42	-
Poland	963	947
	<u>1 005</u>	<u>947</u>

As at 30 June 2006 future revenue relating to minimum lease payments under non-cancellable sublease agreements amount to 3 133 TPLN.

#### 27 Loan security

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

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### 28 Earnings per share

Basic and diluted earnings per ordinary share for the six months ended 30 June 2006 and 30 June 2005 are calculated as follows:

	<u>2006</u>	<u>2005</u>
Net profit attributable to shareholders of the parent	18 909	7 930
Ordinary shares at 1 January	13 500 000	10 000 000
Effect of shares issued	-	1 256 906
Effect of stock options granted	<u>25 399</u>	<u>-</u>
Weighted average number of ordinary shares	<u>13 525 399</u>	<u>11 256 906</u>
Basic and diluted earnings per share	<u>1.40</u>	<u>0.70</u>

The effect of potential ordinary shares resulting from stock options granted is slightly dilutive. It relates mostly to options granted in 2006.

#### 29 Commitments and Contingencies

Under the signed franchise agreements, 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.

#### 30 Investments in associates

Changes in investments in associates can be presented as follows:

	<u>6 months ended 30 June 2006</u>	<u>6 months ended 30 June 2005</u>	<u>12 months ended 31 December 2005</u>
At the beginning of the period	574	80	80
Acquisition of shares	10	-	35
Share of profit of associates	346	99	459
Exchange differences	-	-	-
Other changes	<u>10</u>	<u>20</u>	<u>-</u>
At the end of the period	<u>940</u>	<u>199</u>	<u>574</u>

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

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

Name of associate	Country of incorporation	Assets	Liabilities	Revenues	Profit/(loss)	% of interest held
<b>30 June 2006</b>						
Worldwide Communication Services LLC	USA	291	89	-	(82)	33.33
Global Communication Services Sp. z o.o. in liquidation	Poland	48	104	-	(6)	33.33
Synergy Marketing Partners Sp. z o.o.	Poland	2 912	2 966	9 944	(29)	26.66
Red 8 Communications Group Sp. z o.o.	Poland	2 011	629	4 878	299	17.33
Synergy Marketing Partners s.r.o.	Czech	974	874	-	67	24.00
SCM Sp. z o.o.	Poland	1 709	251	2 096	722	45.00
<b>31 December 2005</b>						
Worldwide Communication Services LLC	USA	265	91	230	357	33.33
Global Communication Services Sp. z o.o. in liquidation	Poland	51	100	173	(28)	33.33
Synergy Marketing Partners Sp. z o.o.	Poland	3 307	3 100	19 844	126	26.66
Red 8 Communications Group Sp. z o.o.	Poland	1 594	511	11 620	538	17.33
Synergy Marketing Partners s.r.o.	Czech	655	626	-	-	24.00
SCM Sp. z o.o.	Poland	927	191	1 538	636	35.00

### 31 Related parties

#### Trade and other receivables from related parties:

	30 June 2006	31 December 2005
MPI Sp. z o.o.	7	474
American Retail Systems Sp. z o.o. Associates	-	8
	42	556
	<u>49</u>	<u>1 038</u>

#### Trade and other payables to related parties:

	30 June 2006	31 December 2005
American Retail Systems Sp. z o.o. Associates	89	110
	-	1 741
	<u>89</u>	<u>1 851</u>

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

#### Loans granted by related parties:

	30 June 2006	31 December 2005
International Restaurants Investments, LLC	-	1 727
Associates	-	-
	<hr/>	<hr/>
	-	1 727

#### Sales of goods and services:

	6 months ended 30 June 2006	6 months ended 30 June 2005
MPI Sp. z o.o.	11	9
American Retail Concepts	1 592	-
Associates	15	112
	<hr/>	<hr/>
	1 618	121

#### Purchases of goods and services:

	6 months ended 30 June 2006	6 months ended 30 June 2005
YUM!	-	8 705
MPI Sp. z o.o.	138	118
American Retail Concepts	1 592	1 945
American Retail Systems Sp. z o.o.	799	1 410
Associates	11 364	7 993
	<hr/>	<hr/>
	13 893	20 171

#### Intangible assets purchased – rights to use Pizza Hut and KFC trademarks (initial fees):

	6 months ended 30 June 2006	6 months ended 30 June 2005
YUM!	-	119
	<hr/>	<hr/>
	-	119

#### Key shareholder and its related parties

##### ARC

As described in the note 1 (a) at 30 June 2006 the Group's largest and key shareholder remains IRI of the United States with a 39.54% ownership interest. IRI is a wholly-owned subsidiary of ARC of the United States.

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

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements

(in thousands of Polish zloty unless otherwise stated)

The current ownership structure of ARC is shown in the table below:

	<u>Percent Ownership</u>
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%

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 30 June 2006 the Group presents in its consolidated balance sheet long-term prepayment amounting to 10 500 TPLN (the same amount as at 31 December 2005; Note 13). The prepayment was made in 2005 on behalf of ARS for 10-years rent of 4 restaurants commencing 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. (MPI), a company owned by Henry McGovern.

The rent and other costs paid by the Group and its subsidiaries to ARS was 799 TPLN and 1 410 TPLN for the six months ended 30 June 2006 and 30 June 2005, respectively.

The rent and other costs paid to the company owned by Henry McGovern – MPI was 138 TPLN and 118 TPLN for the six months ended 30 June 2006 and 30 June 2005, respectively.

The Group payables in respect of the above mentioned transactions amounted to 89 TPLN and 110 TPLN as at 30 June 2006 and at 31 December 2005, respectively.

The Group also received management and consultancy services provided by ARC on a non-exclusive basis for the Group's 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 1 592 TPLN and 1 945 TPLN for the six months ended 30 June 2006 and 30 June 2005, respectively.

Starting from 27 April 2005, ARC assumed obligations for the settlement of Stock Option Plan 1 (See Note 21).

### YUM!

YUM! ceased being a related party on 27 April 2005 upon listing of the Group on WSE (see Note 1). Till 27 April 2005 the Group had significant related party transactions with YUM!, including loans and related interest expense as well as initial franchise fees, continuing franchise fees, professional fees and franchise renewal fees. Value of the transactions within a period from 1 January to 27 April 2005 amounted to 9 109 TPLN.

	<u>1 January 2005</u> <u>- 27 April 2005</u>
Intangible assets purchased – rights to use Pizza Hut and KFC trademarks (initial fees) (see Note 1 (f))	119
Continuing franchise fees (see Note 1 (f))	8 705
Interest expense	285
Total	<u>9 109</u>

## AmRest Holdings N.V.

### Notes to the Consolidated Financial Statements (in thousands of Polish zloty unless otherwise stated)

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 current period a profit in the amount of 3 396 TPLN which was presented as finance income (Note 7).

#### Associates

##### *Wordwide Communication Services LLS*

Wordwide Communication Services LLS (WCS) Group provides marketing services to the Group. Amounts billed by WCS to the Group (mainly through its subsidiary – Synergy Marketing Partners Sp. z o.o.) for the six months ended 30 June 2006 and 30 June 2005 amounted to 11 364 TPLN and 7 993 TPLN, respectively.

#### Transactions with key management personnel

As noted above, certain members of key management are compensated directly by ARC with ARC rebilling the Group. Key management (members of the management board of AmRest Holdings N.V.) remuneration paid directly by the Group is as follows:

	6 months ended 30 June 2006	6 months ended 30 June 2005
Short-term employee benefits	490	352

Key management also participated in share option programs (see Note 21). Share based payment expense which relates to key management amounted to 11 TPLN and 24 TPLN in the 6 months period ended 30 June 2006 and 2005, respectively.

Management remuneration paid by ARC for services rendered to the Group amounted to PLN 1 214 TPLN and 1 760 TPLN in the 6 months period ended 30 June 2006 and 2005, respectively.

At 30 June 2006 there were no commitments to former employees.

## **32 Critical accounting estimates and assumptions**

#### *Key sources of estimation and uncertainty*

Estimates and judgements 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, tangible fixed assets impairment and depreciation, provisions and 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 (see Note 12). No impairment was recognised in relation to goodwill existing at 31 December 2005 and 30 June 2006. The 10%

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements** (in thousands of Polish zloty unless otherwise stated)

change of discount rate percent (from 7% to 7.7%) or the 10% change of operating cashflow, would not result in impairment charge.

The goodwill additions in 2006 related to acquisition of Kentucky System Kft (See Note 4 and 12) will be tested on impairment as at 31 December 2006.

#### *Estimated impairment of tangible fixed assets*

See Note 10 for details

#### *Estimated depreciation rates*

The increase of average useful lives by 10% would result in a decrease of depreciation expense for 6 months period ended 30 June 2006 by approximately 1 600 TPLN.

#### *Provisions*

Uncertainty and estimates described in Note 22.

#### *Deferred taxes*

Uncertainties and judgments in deferred tax computation relate mostly to the recognition of deferred tax asset on tax losses carry forward. See Note 9 for details.

#### *Judgments*

The most critical judgments relate to lease classification - see Note 1f, 2, 25, 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 overall 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 Board of Directors.

#### *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. Maximum amount exposed to credit risk is 7 411 TPLN.

#### *Interest rate risk*

The Group's interest-bearing borrowings typically bear floating interest rates (see Note 20). As at 30 June 2006 the exposure to interest rate cash flow risk is not hedged.

#### *Foreign currency risk*

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the USD, Euro and Czech Crown. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. 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.

## **AmRest Holdings N.V.**

### **Notes to the Consolidated Financial Statements** (in thousands of Polish zloty unless otherwise stated)

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.

The Group has certain investments in foreign operations, the Czech and Hungary subsidiaries, whose net assets are exposed to foreign currency translation risk.

The Group does not use derivatives on a reasonable scale to manage currency risk.

#### *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

#### *Fair value of financial instruments*

Details of the fair values of the financial instruments for which it is practicable to estimate such value are as follows:

- Cash and cash equivalents, short-term bank deposits and short-term bank credits. The carrying amounts approximate fair value because of the short maturity of these instruments.
- Trade accounts receivable, other accounts receivable, accounts payable and accrued liabilities. The carrying amounts approximate fair value because of the short-term nature of these instruments.
- Non-current interest bearing loans and borrowings. The carrying amounts approximate fair value due to the variable nature of the related interest rates, which are not substantially different from market conditions.