AmRest Holdings N.V.

Consolidated Financial Statements as at and for the twelve months ended 31 December 2006

Initialled on behalf of
PricewaterhouseCoopers
Accountants N.V.
for identification purposes only
Rotterdam

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Consolidated income statement
for the twelve months ended 31 December 2006

in thousands of Polish zloty

	Note	2006	2005 (restated)
Restaurant sales	3	629 326	499 810
Restaurant expenses:	5		
Cost of food		(210 926)	(167 283)
Direct marketing expenses		(30 590)	(25 462)
Direct depreciation and amortisation expenses		(40 177)	(31 741)
Payroll and employee benefits		(119 331)	(91 969)
Continuing franchise fees		(37 300)	(29 700)
Occupancy and other operating expenses		(105 600)	(88 775)
Total restaurant expenses		(543 924)	(434 930)
Gross profit on sales		85 402	64 880
General and administrative expenses (G&A)	5	(41 290)	(35 949)
Depreciation and amortisation expense (G&A)	5	(3 416)	(2 710)
Other operating income	6	5 505	6 826
Gain/(loss) on disposal of property, plant and equipment, intangibles and assets held for sale	10,19	1 411	(2 711)
Impairment losses	5	(3 117)	(5 101)
Initial public offering expenses		-	(1 937)
Operating profit	3	44 495	23 298
Finance income	3,7	8 671	1 351
Finance cost	3,8	(4 847)	(9 769)
Share of profit of associates	3,31	637	459
Profit before tax	9	48 956	15 339
Income tax (expense)/benefit	3,9	(10 314)	6 772
Profit for the period		**38 642**	**22 111**
Attributable to:			
Minority interest		59	(16)
Equity holders of the parent	3	38 583	22 127
Basic earnings per share in Polish zloty	29	2.86	1.78
Diluted earnings per share in Polish zloty	29	2.85	1.78

See accompanying notes to the consolidated financial statements.

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Consolidated balance sheet as at 31 December 2006 and 31 December 2005

in thousands of Polish zloty	Note	2006	2005 (restated)
Assets			
Property, plant and equipment	10	191 705	174 141
Goodwill	12	23 516	4 765
Other intangible assets	11	12 829	16 280
Investment in associates	3,31	1 221	574
Other non-current assets	13	17 726	19 750
Deferred tax asset	9	9 336	11 540
Total non-current assets		256 333	227 050
Inventories	14	8 134	5 973
Trade and other receivables	15	11 460	13 463
Income tax receivable		-	5 281
Other current assets	16	5 976	2 380
Held-to-maturity financial assets	18	9 984	-
Cash and cash equivalents	17	25 241	31 575
Assets held for sale	19	3 861	3 219
Total current assets		64 656	61 891
Total assets	3	320 989	288 941
Equity	20		
Share capital		519	519
Reserves		219 137	218 640
Accumulated deficit		(95 511)	(117 638)
Profit for the period		38 583	22 127
Translation reserve		(4 943)	(578)
Equity attributable to shareholders of the parent		157 785	123 070
Minority interest		79	20
Total equity		157 864	123 090
Liabilities			
Interest-bearing loans and borrowings	21	72 140	80 440
Finance lease liabilities	2,26	3 326	3 237
Employee benefits	22	913	791
Provisions	23	5 565	4 690
Deferred tax liabilities	9	760	1 263
Other non-current liabilities	24	1 721	2 168
Total non-current liabilities		84 425	92 589
Interest-bearing loans and borrowings	21	918	18 321
Finance lease liabilities	2,26	68	45
Trade and other accounts payable	25	75 448	54 896
Income tax liabilities		2 266	-
Total current liabilities		78 700	73 262
Total liabilities	3	163 125	165 851
Total equity and liabilities		320 989	288 941

See accompanying notes to the consolidated financial statements.

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

in thousands of Polish zloty	Note	2006	2005 (restated)
Cash flows from operating activities			
Profit before tax		48 956	15 339
Adjustments for:			
Share of profit of associates	31	(637)	(459)
Amortization	11	6 108	3 817
Depreciation	10	37 485	30 634
Interest expense, net	7,8	3 577	5 729
Foreign exchange gain, net	7,8	(4 726)	(1 820)
(Gain)/loss on disposal of property, plant, equipment, intangibles and assets held for sale	10	(1 411)	2 711
Impairment of property, plant, equipment, intangibles and assets held for sale	5	2 540	2 733
Equity–settled share based payments expenses	22	497	203
Waiver of loans	7,32	(3 396)	-
Working capital changes:			
Change in receivables		7 643	(1 097)
Change in inventories		(772)	61
Change in other assets		(2 344)	(8 484)
Change in payables and other liabilities		14 649	(192)
Change in other provisions and employee benefits		997	(745)
Income taxes paid		(5 580)	(4 513)
Interest paid		(3 577)	(5 876)
Other		545	2 038
Net cash provided by operating activities		100 554	40 079
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	4	(20 730)	(17 752)
Proceeds from the sale of property, plant and equipment and intangibles	10	1 082	489
Proceeds from the sale of assets held for sale	19	5 000	-
Acquisition of property, plant and equipment	10	(54 445)	(34 595)
Acquisition of intangible assets	11	(1 521)	(4 780)
Acquisition of held-to-maturity financial assets	18	(9 954)	-
Acquisition of investments in associates	31	(10)	(35)
Loans repaid		-	42
Net cash used in investing activities		(80 578)	(56 631)
Cash flows from financing activities			
Cash contribution from shareholders		-	77 866
Proceeds from borrowings		4 179	177 815
Repayment of borrowings		(30 111)	(219 007)
Repayment of finance lease		(112)	(86)
Net cash (used in) /provided by financing activities		(26 044)	36 588
Net change in cash and cash equivalents		(6 068)	20 036
Cash and cash equivalents, beginning of period		31 575	11 486
Effect of foreign exchange rate movements		(266)	53
Cash and cash equivalents, end of period		25 241	31 575

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

in thousands of Polish zloty	Attributable to equity holders of the Company								Minority Interest	Total
	Share Capital (Note 20)	Share premium	Share options (Note 22)	Other reserves (Note 20)	Total Reserves	Accumulated deficit	Currency translations	Total		
As at 01.01.2005 (previously reported)	373	132 582	-	6 191	138 773	(117 198)	141	22 089	36	22 125
Correction of accounting treatment for lease arrangement (Note 2)	-	-	-	-	-	(440)	-	(440)	-	(440)
As at 01.01.2005 (restated)	373	132 582	-	6 191	138 773	(117 638)	141	21 649	36	21 685
Employees share option scheme - Share-based payments liabilities assumed by shareholder (Note 22)	-	-	1 944	-	1 944	-	-	1 944	-	1 944
Employees share option scheme – value of employee services (Note 22)	-	-	203	-	203	-	-	203	-	203
Currency translation differences	-	-	-	-	-	-	(719)	(719)	-	(719)
Profit for the period	-	-	-	-	-	22 127	-	22 127	(16)	22 111
Issue of shares	146	77 720	-	-	77 720	-	-	77 866	-	77 866
As at 31.12.2005	519	210 302	2 147	6 191	218 640	(95 511)	(578)	123 070	20	123 090
As at 01.01.2006	519	210 302	2 147	6 191	218 640	(95 511)	(578)	123 070	20	123 090
Employees share option scheme – value of employee services (Note 22)	-	-	497	-	497	-	-	497	-	497
Currency translation differences	-	-	-	-	-	-	(4 365)	(4 365)	-	(4 365)
Profit for the period	-	-	-	-	-	38 583	-	38 583	59	38 642
As at 31.12.2006	519	210 302	2 644	6 191	219 137	(56 928)	(4 943)	157 785	79	157 864

See accompanying notes to the consolidated financial statements

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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 Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands. The Company's corporate offices are located in Wroclaw, Poland.

The Company and its subsidiaries are collectively referred to as the "Group".

The Consolidated Financial Statements as at and for the twelve months ended 31 December 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 8 May 2007.

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 in Poland, the Czech Republic „Rodeo Drive" and restaurants. Solely in Poland „Ice*Land" ice cream outlets 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 2006 the Company's largest shareholder with a 37,5% 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.

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The table below presents a summary of the subsidiaries included within the Group at 31 December 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
American Restaurants 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.	99.973%	December 2000
			American Restaurants Sp. z o.o.	0.027%	
Fried Chicken s.r.o.	Prague, Czech Republic	No current activities	Pizza Hut s.r.o.	100.00%	May 2005
Doris 2006 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 %	October 2006
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 subsidiaries Kentucky System Kft (Hungary) and Doris 2006 Sp. z o.o. (Poland) were acquired. See (Note 4). There were no other material changes in the structure of the Group.

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The Group's associated companies at 31 December 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.

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(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;

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- 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

- IFRIC 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006. IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10. The management is already assessing impact of IFRIC 10 on Group's operations but do not expect the interpretation to have material impact on the financial statements.

- IFRIC 11, 'Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007. IFRIC 11 addresses application of IFRS 2 in case of emission equity instruments by the Company as a payment for received goods or services or when emitted are equity instrument by any other entity from the Group. The management is already assessing impact of IFRIC 11 on Group's operations but do not expect the interpretation to have material impact on the financial statements.

- IFRIC 12, 'Service Concession Arrangements', effective for annual periods beginning on or after 1 January 2008. IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. Management do not expect the interpretation to be relevant for the Group.

- 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.

- IFRS 8, 'Operating Segment' , effective for annual periods beginning on or after 1 January 2009. IFRS 8 supersedes IAS 14. According to IFRS 8 operating segments are components of entity and are regularly reviewed by entity's chief operation decision makers. Relevant positions are presented basing on internal reporting. The Group will apply IFRS 8 from annual periods beginning 1 January 2008.

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(c) Basis of preparation

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

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

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

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

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 33.

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.

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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 and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). 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 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.

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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% 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 40 900 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".

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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.

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(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*
• Trademark	5 years
• Rights to use Pizza Hut and KFC trademarks	10 years
• Other intangible assets	5 - 10 years

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

(i) Goodwill

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

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

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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.

Held-to-maturity financial assets

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

Loans and receivables

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

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

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Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

(k) Trade and other receivables

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

(l) Inventories

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

(m) Cash and cash equivalents

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

(n) Impairment

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

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

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

Restaurants are evaluated using a "one year history of operating losses" as the primary indicator of potential impairment.

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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.

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.

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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".

(r) Provisions

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

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

Site restoration

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

Onerous contracts

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

(s) Trade and other payables

They are recognised initially at fair value and subsequently measured at 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".

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(v) Income tax

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

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

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

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

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

(w) Derivative financial instruments

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

Derivatives used by the Group do not qualify for hedge accounting. 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.

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(z) Business combinations involving entities under common control

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

2 Corrections

a) Correction of accounting treatment for lease arrangement

In 2006, the Group concluded that the leasing contract for land and building related to one of the restaurants located in the Czech Republic was inappropriately accounted for 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:

	12 months ended 31 December 2005
Adjustment to the consolidated income statement:	
Increase of direct depreciation expenses (restaurant expenses)	(142)
Decrease of occupancy expenses (restaurant expenses)	649
Increase of finance costs	(602)
Decrease of income tax	10
Decrease of profit for the period	(85)
Change of basic and diluted earnings per share	0

	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)

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	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	440
Increase of loss of the current year	85
Decrease of translation reserve	(36)
Increase of finance lease liabilities (short term portion: 45 TPN, long term portion: 3 237 TPLN (Note 26)	(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.

b) Correction of accounting treatment of marketing revenues (presentation)

The Group presented in previous period revenues from marketing services related to one supplier of beverages as a deduction of marketing expenses. These services are in substance revenues of the Group as services are rendered in restaurants (exposure of trademark, etc) and should not deduct marketing expenses. Therefore the Group changed in the current year the presentation of these services in profit and loss accounts. As a result, previously reported revenues and marketing expenses increased by 1 059 TPLN. Comparative data were restated.

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 twelve months ended 31 December 2006 and comparable period ended 31 December 2005 is as follows:

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	Poland	Czech Republic	Unallocated	Total
2006				
Revenue from external customers	435 718	172 247	21 361	629 326
Inter-segment revenue	-	-	-	-
Operating profit/segment result	32 638	12 984	(1 127)	44 495
Finance income				8 671
Finance cost				(4 847)
Share of profit of associates (Note 31)	637	-	-	637
Income tax				(10 314)
Profit for the period				38 583
Segment assets	208 200	90 921	-	299 121
Investments in associates (Note 31)	1 221	-	-	1 221
Unallocated corporate assets	-	-	20 647	20 647
Consolidated total assets				320 989
Segment liabilities	55 636	20 266		75 902
Unallocated corporate liabilities			87 223	87 223
Consolidated total liabilities				163 125
Depreciation (Note 10)	26 377	10 751	357	37 485
Amortization (Note 11)	5 143	663	302	6 108
Capital investments (Note 10, 11, 12)	55 069	19 422	-	74 491
Impairment of fixed assets (Note 10)	611	1 455	174	2 240
Impairment of non-current assets held for sale (Note 10)	300	-	-	300
Impairment of inventories	91	-	110	201
Impairment of trade receivables (Note 15)	265	111	-	376

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	Poland	Czech Republic	Unallocated	Total
2005				
Revenue from external customers	360 002	139 808	-	499 810
Inter-segment revenue	-	-	-	-
Operating profit/segment result	16 469	9 583	(2 754)	23 298
Finance income				1 351
Finance cost				(9 769)
Share of profit of associates (Note 31)	459	-	-	459
Income tax				6 772
Profit for the period				22 127
Segment assets	181 864	74 160	-	256 024
Investments in associates (Note 31)	574	-	-	574
Unallocated corporate assets	-	-	32 343	32 343
Consolidated total assets				288 941
Segment liabilities	43 179	20 751	-	63 930
Unallocated corporate liabilities	-	-	101 921	101 921
Consolidated total liabilities				165 851
Depreciation (Note 10)	22 091	8 543	-	30 634
Amortization (Note 11)	3 289	528	-	3 817
Capital investments (Note 10, 11, 12)	25 691	18 503	-	44 194
Impairment of fixed assets (Note 10)	626	-	-	626
Impairment of non-current assets held for sale (Note 10)	2 107	-	-	2 107
Impairment of inventories	434	-	-	434
Impairment of trade receivables (Note 15)	1 815	119	-	1 934

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 (mainly borrowings) and transactions of AmRest Holdings N.V., AmRest Ukraine t.o.w., corporate assets and liabilities of American Restaurants 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. (current name: American Restaurants Kft.) 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 this company. The purchase price amounted to USD 6 500 000 and was paid in cash.

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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.

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 American Restaurants Kft. 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 American Restaurants Kft. did not involve any additional significant costs.

If the acquisition presented above had occurred on 1 January 2006, estimated Group revenue would have been 648 765 TPLN, and profit before allocations would have been 37 978 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.

Acquisition of Doris 2006 Sp. z o.o. by subsidiary - American Restaurants Sp. z o.o.

On October 25-th 2006 the Group purchased 100% of shares of Doris 2006 Sp. z o.o. with registered office in Warsaw, Poland. The principal activity of this company is renting trading area in Warsaw, which will be used for opening one restaurant. The fair value of net assets acquired is as follows (in thousands of Polish zloty):

Intangible assets (favourable lease contracts)	495
Cash paid on acquisition	495
Net cash and cash equivalents in subsidiary acquired	-
Cash outflow on acquisition	495

DORIS 2006 Sp. z o.o. did not start to operate before the year-end. Therefore, the hypothetical acquisition on 1 January 2006 would have no impact on Group's revenues and profit.

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Other transactions

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

5 Operating expenses

	2006	2005
Depreciation (Note 10)	37 485	30 634
Amortisation (Note 11)	6 108	3 817
Food and materials	225 996	177 242
Utilities	22 454	16 906
External services	39 111	36 494
Payroll	111 513	86 776
Social security and other employee benefits	26 475	18 740
Operating leases (occupancy costs) (Note 27)	45 040	40 317
Marketing expenses	30 590	25 462
Continuing franchise fees	37 300	29 700
Insurance	1 127	2 181
Business travel	2 355	1 682
Onerous contracts	905	1 668
Initial public offering expenses	-	1 937
Other	2 171	1 970
	588 630	475 526
Total restaurant expenses	543 924	434 930
Depreciation and amortisation expense (G&A)	3 416	2 710
Other general and administrative expenses	41 290	35 949
Initial public offering expenses	-	1 937
	588 630	475 526

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Impairment costs are as follows:	2006	2005
Impairment of inventory (Note 14)	201	434
Impairment of receivables (Note 15)	376	1 934
Total impairment of current assets (working capital)	577	2 368
Impairment of assets held for sale	300	2 107
Impairment of property, plant and equipment (Note 10)	2 240	626
Total impairment of non-current assets	2 540	2 733
Total	3 117	5 101

Impairment losses recognized 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 10,9%.

6 Other operating income

	2006	2005
Management fee	313	985
Sublease income (Note 27)	2 095	2 001
Marketing revenues	1 696	1 059
Other operating income	1 401	2 781
	5 505	6 826

7 Finance income

	2006	2005
Interest income	458	743
Foreign exchange gain, net	4 726	-
Waiver of loan from related party (Note 32)	3 396	-
Other	91	608
	8 671	1 351

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8 Finance costs

	2006	2005
Interest expense	(4 035)	(6 472)
Foreign exchange loss, net	-	(1 837)
Other	(812)	(1 460)
	(4 847)	(9 769)

9 Taxation

	2006	2005
Current tax	(8 613)	960
Change in deferred tax	(1 701)	5 812
Tax presented in the profit and loss account	(10 314)	6 772

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

	Netherlands	Poland	Czech Republic	Hungary	Ukraine
2006	29.6%	19%	24%	16%	20%
2005	31.5%	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	29.6%	19%	24%	16%	20%
2005	31.5%	19%	24%	N/a	20%

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

	12 months ended 31 December 2006	12 months ended 31 December 2005
Profit before tax	48 956	15 339
Tax calculated at domestic tax rates applicable to profits in the respective countries	9 651	5 413
Permanent differences	(544)	(3 649)
Utilisation of previously unrecognised tax losses	35	(3 941)
Tax loss for current year for which no deferred tax assets was recognised	486	-
Deferred tax asset recognised in the period for previously unrecognised tax losses	331	(4 605)
Other differences	355	10
Tax presented in the profit and loss account	10 314	(6 772)

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The weighted average applicable tax rate was 19,2% (31.12.2005: 44,3%). The decrease was 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	350	8 057
Deferred tax asset to be recovered within 12 months	8 986	3 483
	9 336	11 540
Deferred tax liability		
Deferred tax liability to be recovered after more than 12 months	40	760
Deferred tax liability to be recovered within 12 months	720	503
	760	1 263

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

	Deferred tax asset		Deferred tax liability	
	31.12.2006	31.12 2005	31.12.2006	31.12 2005
Tangible fixed assets and intangibles	6 867	5 760	760	1 263
Receivables	540	(41)	-	-
Provisions and other write downs	423	1 229	-	-
Tax losses	899	4 605	-	-
Other differences	607	(13)	-	-
	9 336	11 540	760	1 263

Temporary differences before offsetting are as follows:

	Deferred tax asset		Deferred tax liability	
	31.12.2006	31.12 2005	31.12.2006	31.12 2005
Tangible fixed assets	6 355	5 760	1 182	1 263
Receivables)	540	492	-	533
Provisions and other write downs	423	1 229	-	-
Tax losses	899	4 605	-	-
Other differences	1 629	-	88	13
	9 846	12 086	1 270	1 809

Tax losses carried forward as at 31 December 2006 are as follows:

Poland	5 588
Czech Republic	3 335
The Netherlands	2 421
Hungary	7 358
Ukraine	1 973
	20 675

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Year of expiry	Tax losses total value	Tax losses included in deferred tax asset	Tax losses for which no deferred tax asset was recognised
2007	7 467	4 730	2 737
2008	3 123	-	3 123
2009	1 812	-	1 812
2010	2 107	-	2 107
2011	107	-	107
Without limits	6 059	-	6 059
	20 675	4 730	15 945

At 31 December 2006, the Group has recognized a deferred tax asset relating to 4 730 TPLN of the above tax loss carry forwards related mainly to "Poland" segment, 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 to entities located in other, than Poland, countries (Hungary, Netherlands and Ukraine) due to uncertainty regarding their realization. The Group does not consider the recognition of these losses as deferred tax asset in foreseeable future.

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10 Property, plant and equipment

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

2006	Land	Buildings & restaurant development assets	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
Acquisition cost							
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	-	5 802	13 028	111	1 305	34 199	54 445
Disposals	-	(4 477)	(1 516)	(210)	(846)	(1 287)	(8 336)
Transfers between groups	-	14 904	906	226	2 564	(18 600)	-
Transfers to assets held for sale (Note 19)	(1 004)	(3 172)	-	-	-	-	(4 176)
Exchange rate differences	38	2 774	2 489	12	187	217	5 717
Balance at 31/12/2006	946	247 874	135 451	940	9 435	20 883	415 529
Accumulated depreciation							
Balance at 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	-	23 477	12 844	143	1 021	-	37 485
Disposals	-	(2 442)	(846)	(154)	(446)	-	(3 888)
Transfers to assets held for sale	-	(315)	-	-	-	-	(315)
Exchange rate differences	-	1 162	1 481	6	133	-	2 782
Balance at 31/12/2006	-	126 525	85 688	518	4 314	-	217 045
Impairment losses							
Balance at 1/1/2006	-	5 450	-	-	-	1 728	7 178
Additions	-	2 217	-	-	23	-	2 240
Decreases	-	(2 174)	-	-	-	(521)	(2 695)
Transfers between groups	-	32	-	-	-	(32)	-
Exchange rate differences	-	16	14	-	10	16	56
Balance at 31/12/2006	-	5 541	14	-	33	1 191	6 779
Net book value 1/1/2006	**1 912**	**118 385**	**47 271**	**165**	**1 782**	**4 626**	**174 141**
Net book value 31/12/2006	**946**	**115 808**	**49 749**	**422**	**5 088**	**19 692**	**191 705**

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2005	Land	Buildings & restaurant development assets	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
Acquisition cost							
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	-	6 012	1 428	22	242	87	7 791
Additional additions	-	8 072	9 708	-	286	16 529	34 595
Disposals	-	(6 425)	(4 326)	(194)	(1 328)	(1 710)	(13 983)
Transfers between groups	-	12 473	4 800	-	503	(17 776)	-
Transfers to assets held for sale (Note 19)	(183)	(6 566)	-	-	-	-	(6 749)
Exchange rate differences	(11)	(396)	(356)	-	-	(25)	(788)
Balance at 31/12/2005	1 912	228 478	119 480	688	5 388	6 354	362 300
Accumulated depreciation							
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	-	18 424	11 793	91	326	-	30 634
Disposals	-	(3 869)	(4 344)	(58)	(795)	-	(9 066)
Transfers to assets held for sale	-	(1 426)	-	-	-	-	(1 426)
Exchange rate differences	-	(136)	(220)	-	-	-	(356)
Balance at 31/12/2005	-	104 643	72 209	523	3 606	-	180 981
Impairment losses							
Balance at 1/1/2005	-	6 662	-	-	-	1 729	8 391
Additions	-	626	-	-	-	-	626
Disposals	-	(1 838)	-	-	-	-	(1 838)
Exchange rate differences	-	-	-	-	-	(1)	(1)
Balance at 31/12/2005	-	5 450	-	-	-	1 728	7 178
Net book value 1/1/2005	**2 106**	**116 996**	**43 246**	**370**	**1 610**	**7 520**	**171 848**
Net book value 31/12/2005	**1 912**	**118 385**	**47 271**	**165**	**1 782**	**4 626**	**174 141**

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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 31/12/2006	827	2 738	53	3 618
Accumulated depreciation at 31/12/2006	-	787	53	840
Net book value 31/12/2006	827	1 951	-	2 778
Acquisition cost at 31/12/2005	788	2 613	50	3 451
Accumulated depreciation at 31/12/2005	-	621	47	668
Net book value 31/12/2005	788	1 992	3	2 783

	2006	2005
Proceeds from the sale of property, plant and equipment and intangible assets	1 082	489
Net book value of property, plant and equipment and intangible assets disposed	(1 753)	(3 200)
Loss on disposal of property, plant and equipment and intangibles	(671)	(2 711)
Gain on disposal of assets held for sale (Note 19)	2 082	-
Gain/(loss) on disposal of property, plant and equipment, intangibles and assets held for sale	1 411	(2 711)

BRAK TŁUMACZENIA Z POLSKIEJ WERSJI FRAGMENTU TEXTU STR 35

Zysk ze zbycia niefinansowych aktywów trwałych oraz odwrócenie odpisów aktualizujących odnosi się do różnych aktywów oraz transakcji. Odpisy aktualizujące zostały dokonane w poprzednich okresach i nie zaistniały zdarzenia, które uzasadniałyby ich rozwiązanie przed dniem faktycznego zbycia aktywów, których te odpisy dotyczą.

Odpisy aktualizujące ujęte w księgach za lata 2006 i 2005 dotyczą rzeczowych aktywów trwałych nierentownych restauracji, co do których podjęto decyzję o zamknięciu lub na podstawie analizy zdyskontowanych przewidywanych przepływów pieniężnych stwierdzono, iż wartość aktywów lub ich części (głównie inwestycji w obcych środkach trwałych) należących do nierentownych restauracji nie są możliwe do odzyskania. Oszacowanie wartości możliwej do odzyskania oparto na wartości użytkowej restauracji określonej przy użyciu stopy dyskonta w wysokości około 10,9%.

The net book value of property, plant and equipment used as collateral for borrowings amounted to 164 152 TPLN.

Depreciation expense has been charged in 'restaurant expenses' – 34 427 TPLN (previous period: 28 248 TPLN) and in general and administrative (G&A) expenses – 3 058 TPLN (previous period: 2 386 TPLN).

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11 Other 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
Acquisition cost					
Balance at 1/1/2006	338	8 389	14 851	8 843	32 421
Acquisitions (Note 4)	-	1 076	89	42	1 207
Additions	-	-	1 280	241	1 521
Disposals	(349)	-	(193)	(118)	(660)
Exchange rate differences	11	-	288	50	349
Balance at 31/12/2006	-	9 465	16 315	9 058	34 838
Accumulated amortisation					
Balance at 1/1/2006	39	1 377	9 642	4 979	16 037
Additions	69	2 861	1 814	1 364	6 108
Disposals	(110)	-	(193)	(119)	(422)
Exchange rate differences	2	-	147	36	185
Balance at 31/12/2006	-	4 238	11 410	6 260	21 908
Impairment losses					
Balance at 1/1/2006	-	-	104		104
Additions	-	-	-	-	-
Disposals	-	-	(4)		(4)
Exchange rate differences	-	-	1	-	1
Balance at 31/12/2006	-	-	101	-	101
Net book value 1/1/2006	**299**	**7 012**	**5 105**	**3 864**	**16 280**
Net book value 31/12/2006	**-**	**5 227**	**4 804**	**2 798**	**12 829**

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2005	Trademarks	Favourable leases	Rights to use Pizza Hut and KFC trademarks	Other intangible assets	Total
Acquisition cost					
Balance at 1/1/2005	-	-	13 346	5 962	19 308
Acquisitions (Note 4)	342	8 389	-	-	8 731
Additions	-	-	1 743	3 037	4 780
Disposals	-	-	(186)	(142)	(328)
Exchange rate differences	(4)	-	(52)	(14)	(70)
Balance at 31/12/2005	338	8 389	14 851	8 843	32 421
Accumulated amortization					
Balance at 1/1/2005	-	-	8 008	4 444	12 452
Additions	40	1 377	1 837	563	3 817
Disposals	-	-	(188)	(19)	(207)
Exchange rate differences	(1)	-	(15)	(9)	(25)
Balance at 31/12/2005	39	1 377	9 642	4 979	16 037
Impairment losses					
Balance at 1/1/2005	-	-	104	-	104
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Exchange rate differences	-	-	-	-	-
Balance at 31/12/2005	-	-	104	-	104
Net book value 1/1/2005	**-**	**-**	**5 234**	**1 518**	**6 752**
Net book value 31/12/2005	**299**	**7 012**	**5 105**	**3 864**	**16 280**

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

Amortisation expense has been charged in ‘restaurant expenses’ – 5 750 TPLN (previous period: 3 493 TPLN) and in general and administrative (G&A) expenses - 358 TPLN (previous period: 324 TPLN).

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12 Goodwill

Changes in goodwill can be presented as follows:

	12 months ended 31/12/2006	12 months ended 31/12/2005
Acquisition cost		
Balance at the beginning of period	4 765	-
Additions (Note 4)	18 666	4 819
Disposals	-	-
Exchange rate differences	85	(54)
Balance at the end of period	23 516	4 765
Impairment losses		
Balance at the beginning of period	-	-
Additions	-	-
Disposals	-	-
Exchange rate differences	-	-
Balance at the end of period	-	-
Net book value, beginning of period	**4 765**	**-**
Net book value, end of period	**23 516**	**4 765**

Goodwill in the amount of 18 666 TPLN (18 524 TPLN as at 31 December 2006 after adjustments for negative foreign exchange differences of 142 TPLN) relates to the acquisition of American Restaurants Kft in June 2006, described in Note 4, whereas goodwill in the amount 4 819 TPLN (4 992 TPLN as at 31 December 2005 after adjustments for positive foreign exchange differences of 227 TPLN) 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 10.9 per cent has been used in discounting the projected cash flows. Budgeted gross margin was assumed at the level of about 8% and growth rate used to extrapolate cash flow beyond budget period was 5%. Similar assumptions were for test for impairment of goodwill on acquisition of American Restaurants Kft. See also Note 33.

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13 Other non-current assets

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

	2006	2005
Rent prepayments	13 308	13 586
Rent deposits	3 869	5 117
Other	549	1 047
	17 726	19 750

14 Inventories

Inventories at 31 December 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 795 TPLN and 594 TPLN as at 31 December 2006 and 31 December 2005, respectively. In the 12 months period ended 31 December 2006 the amount of provisions created was 201 TPLN (previous period: 434 TPLN) (Note 3, 5). Inventories with a value of 6 383 TPLN (31 December 2005: 5 973 TPLN) are pledged as security for loan received from ABN Amro Polska (Note 21).

15 Trade and other receivables

	2006	2005
Trade receivables - third party	9 805	7 572
Trade receivables - related parties (Note 32)	93	1 038
Other taxes receivable	3 853	6 793
Other receivables	1 379	1 348
Provisions for receivables	(3 670)	(3 288)
	11 460	13 463

16 Other current assets

	2006	2005
Prepaid utilities	2 420	377
Prepaid rent	1 926	1 173
Prepaid insurance	293	715
Other	1 337	115
	5 976	2 380

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17 Cash and cash equivalents

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

	2006	2005
Cash at bank	14 344	26 277
Cash in hand	10 897	5 298
	25 241	31 575

18 Held-to-maturity financial assets

The Group purchased held to maturity financial assets (certificates of deposits) on October 2006 for the amount of 9 954 TPLN with a maturity on January 2007. The balance sheet value of the investment amounted to 9 984 TPLN. Effective interest rate was 4,59%. The maximum exposure to credit risk of this investment approximates to its balance sheet value. The Group considers credit risk of these investment to be very low as these instruments were issued by companies with a very good financial position.

In January 2007 held-to-maturity financial assets matured and the cash was received.

19 Assets held for sale

In 2006 the Group sold two restaurants in Poland, classified as at 31 December 2005 as assets held for sale, for a total amount of 5 000 TPLN.

BRAK TŁUMACZENIA FRAGMENTU TEXTU Z POLSKIEJ WERSSJI STR 40

Wartość godziwa pomniejszona o koszty sprzedaży jednego z budynków w wyniku podpisania ostatecznej umowy sprzedaży w lipcu 2006 wynosiła 1 700 tys. zł. W celu doprowadzenia wartości księgowej budynku do wartości godziwej pomniejszonej o koszty zbycia dokonano w roku bieżącym odpisu aktualizującego w kwocie 300 tys zł. (w roku 2005 utworzono odpis aktualizujący w wysokości 2 107 tys. zł).

	2006	2005
Proceeds from the sale of assets held for sale	5 000	-
Net book value of assets held for sale disposed	(2 918)	-
Gain on disposal of assets held for sale	2 082	-

As at 31 December 2006 the Group reclassified one restaurant building to assets held for sale, as it entered into preliminary agreement with unrelated entity to sell the building. The transaction is expected to be concluded by the end of April 2007. Upon reclassification, the carrying amount amounted to 3 861 TPLN.

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

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20 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 31 December 2006, there are 13 500 000 shares issued and outstanding. All issued shares are fully paid. The authorized shares are 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.

21 Interest-bearing loans and borrowings

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

Non-current	2006	2005
Bank loans	72 140	77 381
Third party interest-bearing borrowings – YUM! (Note 32)	-	1 332
Related party interest-bearing borrowings - IRI (Note 32)	-	1 727
	72 140	80 440

Current	2006	2005
Bank loans	918	18 321
	918	18 321

Bank loans

		Effective interest rate	2006	2005
PLN	BPH-PBK	6,62 %	918	1 466
PLN	ABN Amro Bank	5,02 %	-	24 778
CZK	ABN Amro Bank	3,42 %	72 140	69 458
			73 058	95 702

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

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According to the loan agreement with ABN Amro Bank N.V. 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 28 for details regarding security pledged for the above loans.

Loans from non-related parties

		Effective interest rate	2006	2005
USD	YUM!	8.00%	-	1 332

Loans from related parties

		Effective interest rate	2006	2005
USD	IRI	8.00%	-	1 727

Settlement of loans from YUM! and IRI was described in Note 32.

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.

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

	2006	2005
Between 1-2 years	13 741	38 071
Between 2-5 year	41 223	42 369
Over 5 years	17 176	-
	72 140	80 440

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

	2006	2005
Floating rates		
- expiring within one year	10 202	3 784
- expiring after one year	23 831	29 342
	34 033	33 126

22 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.

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The Group has made an accrual of 913 TPLN for the jubilee obligation as of 31 December 2006 and 791 TPLN as of 31 December 2005. Actuarial assumptions: discount rate: 7.7 and 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 1 944 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. The terms and conditions of the grants are as follows:

Grant date	Number of options granted	Vesting conditions	exercise price in PLN	Contractual life of options
Plan 1				
at 30 April 1999	75 250	5 years, graded, 20% per year	6.4	10 years
at 30 April 2000	53 750	5 years, graded, 20% per year	25.6	10 years
at 30 April 2001	76 300	5 years, graded, 20% per year	25.6	10 years
at 30 April 2002	74 600	5 years, graded, 20% per year	16.0	10 years
at 30 April 2003	55 100	5 years, graded, 20% per year	16.0	10 years
at 30 April 2004	77 800	5 years, graded, 20% per year	19.2	10 years
Total	412 800			
Plan 2				
At 30 April 2005	79 300	5 years, graded, 20% per year	24.0	10 years
At 30 April 2006	75 000	5 years, graded, 20% per year	48.4	10 years
Total	154 300			

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

	2006			2005		
	Weighted average exercise price	Number of options Plan 2	Number of options Plan 1	Weighted average exercise price	Number of options Plan 2	Number of options Plan 1
Outstanding beginning of the period	PLN 20.6	79 300	203 900	PLN 18.9	-	342 210
Exercised during the period	PLN 18.3	-	(9 140)	PLN 18.5	-	(138 310)
Forfeited during the period	PLN 19.7	(2 900)	(12 560)	-	-	-
Granted during the period	PLN 48.4	75 000	-	PLN 24.2	79 300	-
Outstanding, end of the period	PLN 26.9	151 400	182 200	PLN 20.6	79 300	203 900
Exercisable at the end of the period	PLN 20.0	15 760	146 660	PLN 19.5	-	146 773

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

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 30/12/2006	Granted in the period from 1/1/2005 to 31/12/2005		Granted till the end of 2004
	Plan 2	Plan 2	Plan 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)*	31%	40%	40%	40%
Expected option life (expressed as weighted average life used in the modelling under the trinomial tree model	9.9 years	9.9 years	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)	4.98%	4.5%	4.5%	5.8%

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* 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.

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 12 months period ended 31 December 2006 and 31 December 2005 respectively, can be summarized as follows:

	2006	2005
Value of employee services	497	203
	497	203

23 Provisions

The tables below present a roll forward of provisions:

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

31 December 2005	01.01.2005					31.12.2005
Onerous lease contracts	1 482	1 668	-	-	-	3 150
Other	1 540	-	-	-	-	1 540
	3 022	1 668	-	-	-	4 690

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 10.9% discount rate. The increase of discount rate by 10% (from 10.9% to 12%) would result in a decrease of provision by 25 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. The Group created in the current period a provision in the amount of 703 TPLN.

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24 Other non-current liabilities

Other non-current liabilities comprise mainly non-current portion (current portion – Note 25) of deferred income from advertising services provided to one of the Group's suppliers (non-related party). The Group has received in advance a cash remuneration of 750 TUSD for advertising services which are to be rendered over 5 years period, starting 1 January 2006. Non-current portion of deferred income in relation to that amounted to 1 521 TPLN and 2 027 TPLN at 31 December 2006 and 31 December 2005, respectively.

25 Trade and other accounts payable

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

	2006	2005
Accounts payable to third parties:	60 947	46 341
Trade payables	43 119	31 502
Uninvoiced rent and deliveries for restaurants	7 428	5 133
Payables to employees	5 162	3 911
Social insurance liability	3 447	2 378
Other taxes payable	1 711	2 265
Advance payment received for sale of premises	-	1 000
Deposit received	80	152
Accounts payable to related parties (Note 32)	3 404	1 851
Accruals:	7 335	4 667
Bonuses to employees	3 669	2 668
Marketing services	-	-
Unused holidays	1 362	939
Professional services	2 255	1 015
Other	49	45
Deferred income current portion (Note 24)	800	507
Social Fund	481	532
Other accounts payable to third parties	2 481	998
	75 448	54 896

26 Finance lease liabilities

Finance lease liabilities – present value of liability:

	2006	2005
No later than 1 year	68	45
Later than 1 year, no later than 5 years	413	272
Later than 5 years	2 913	2 965
	3 394	3 282

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Finance lease liabilities – minimum lease payments:

	2006	2005
No later than 1 year	669	1 211
Later than 1 year, no later than 5 years	2 657	2 486
Later than 5 years	5 972	5 802
Total minimum lease payments	9 298	9 499
Future finance charges on finance leases	(5 904)	(6 217)
Present value of finance lease liabilities	3 394	3 282

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

27 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 31 December 2006 and 31 December 2005 are as follows:

	2006	2005
No later than 1 year	38 914	35 382
Later than 1 year, no later than 5 years	142 434	117 556
Later than 5 years	107 925	97 190
Total minimum lease payments	289 273	250 128

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 12 months period ended 31 December 2006 and 2005 respectively are as follows:

	2006			2005		
	Fixed part	Contingent part	Total	Fixed part	Contingent part	Total
Czech Republic	12 565	1 605	14 170	10 692	1 896	12 588
Hungary	1 445	303	1 748	-	-	-
Poland	18 651	10 471	29 122	20 915	6 814	27 729
	32 661	12 379	45 040	31 607	8 710	40 317

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

	2006	2005
Czech Republic	83	-
Hungary	35	-
Poland	1 977	2 001
	2 095	2 001

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As at 31 December 2006 future revenue relating to minimum lease payments under non-cancellable sublease agreements amount to 2 087 TPLN.

28 Loan security

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

29 Earnings per share

Basic and diluted earnings per ordinary share for the twelve months ended 31 December 2006 and 31 December 2005 are calculated as follows:

	2006	2005
Net profit attributable to shareholders of the parent	38 642	22 111
Ordinary shares at 1 January	13 500 000	10 000 000
Effect of shares issued	-	2 387 671
Effect of stock options granted	36 130	-
Weighted average number of ordinary shares	13 536 130	12 238 671
Basic earnings per share	2.86	1.78
Diluted earnings per share	2.85	1.78

The effect of potential ordinary shares resulting from stock options granted is slightly dilutive. It relates mostly to options granted in 2005.

30 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.

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31 Investments in associates

Changes in investments in associates can be presented as follows:

	12 months ended 31 December 2006	12 months ended 31 December 2005
At the beginning of the period	574	80
Acquisition of shares	10	35
Share of profit of associates	673	459
At the end of the period	1 221	574

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
31 December 2006						
Worldwide Communication Services LLC	USA	156	82	-	(83)	33.33
Global Communication Services Sp. z o.o. in liquidation	Poland	41	98	-	(7)	33.33
Synergy Marketing Partners Sp. z o.o	Poland	2 758	2 664	19 525	18	26.66
Red 8 Communications Group Sp. z o.o.	Poland	2 410	882	10 458	445	17.33
Synergy Marketing Partners s.r.o.	Czech	664	653	775	(17)	24.00
SCM Sp. z o.o	Poland	2 518	301	4 602	1 481	45.00
31 December 2005						
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

32 Related parties

Trade and other receivables from related parties:

	31 December 2006	31 December 2005
MPI Sp.z o.o.	26	474
American Retail Concepts	11	-
American Retail Systems Sp.z o.o.	-	8
Associates	56	556
	93	1 038

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Trade and other payables to related parties:

	31 December 2006	31 December 2005
American Retail Concepts	556	-
American Retail Systems Sp.z o.o	161	110
Associates	2 687	1 741
	3 404	1 851

Loans granted by related parties:

	31 December 2006	31 December 2005
International Restaurants Investments, LLC	-	1 727
Associates	-	-
	-	1 727

Sales of goods and services:

	12 months ended 31 December 2006	12 months ended 31 December 2005
MPI Sp. z o.o.	26	41
American Retail Concepts	84	214
Associates	72	521
	182	776

Purchases of goods and services:

	12 months ended 31 December 2006	12 months ended 31 December 2005
YUM!	-	8 705
MPI Sp. z o.o.	281	198
American Retail Concepts	3 116	4 862
American Retail Systems Sp. z o.o.	1 609	3 460
Associates	18 193	19 010
	23 199	36 235

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

	12 months ended 31 December 2006	12 months ended 31 December 2005
YUM!	-	119
	-	119

Key shareholder and its related parties

ARC

As described in the note 1 (a) at 31 December 2006 the Group's largest and key shareholder remains IRI of the United States with a 37.50% ownership interest. IRI is a wholly-owned subsidiary of ARC of the United States.

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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.

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

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

The Group also received management and consultancy services provided by ARC 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 3 116 TPLN and 4 862 TPLN for the period ended 31 December 2006 and 31 December 2005, respectively.
Additionally the Group recognised as at 31 December 2006 r. a provision for costs of 1 611 TPLN relating to consultancy services provided by ARC in 2006.

Starting from 27 April 2005, ARC assumed obligations for the settlement of Stock Option Plan 1 (See Note 22).

ARS, MPI

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

As at 31 December 2006 r. the Group recognised in its consolidated balance sheet prepayments for rent amounting to 10 500 TPLN (the same amount as at 31 December 2005) made on behalf of ARS in connection with concluded lease contracts for 4 restaurants for ten-year period starting in 2007 (See Note 13).

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 1 609 TPLN and 3 460 TPLN for the year ended 31 December 2006 and 31 December 2005, respectively.

The rent and other costs paid to the company owned by Henry McGovern – MPI was 281 TPLN and 198 TPLN for the year ended 31 December 2006 and 31 December 2006, respectively.

The Group payables in respect of the above mentioned transactions amounted to 161 TPLN and 110 TPLN as at 31 December 2006 and at 31 December 2005, respectively.

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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.

	1 January 2005 - 27 April 2005
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	9 109

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 (See 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 years ended 31 December 2006 and 31 December 2005 amounted to 17 919 TPLN and 19 009 TPLN, respectively.

Transactions with key management personnel

As noted above, certain members of key management (executive board members) 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:

	12 months ended 31 December 2006	12 months ended 31 December 2005
Supervisory board members	120	-
Including variable element	-	-
Management board (executive board members)	1 206	1 720
Including variable element	-	-

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Executive board members also participated in share option programs (see Note 21). Share based payment expense which relates to key management amounted to 76 TPLN and 24 TPLN in the years ended 31 December 2006 and 31 December 2005, respectively. Options granted to executive board members are as follows:

	31 December 2006	31 December 2005
Number of options granted	117 000	107 000
Number of options vested	83 400	74 734
Fair value of options upon grant date	918 300 PLN	763 300 PLN

Management remuneration paid by ARC for services rendered to the Group amounted to PLN 3 282 TPLN and 3 383 TPLN in the years ended 31 December 2006 and 31 December 2005, respectively. At 31 December 2006 there were no commitments to former employees.

33 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 2006 and 31 December 2005. The 10% change of discount rate percent (from 10,9% to 12%) 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) were tested for 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 the year ended 31 December 2006 by approximately 3 200 TPLN.

Provisions

Uncertainty and estimates described in Note 23.

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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, 26, 27 and recognition of deferred tax asset on tax losses carry forward Note 9.

34 Financial risk and risk management

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, receivables and held-to-maturity financial assets (Note 18). 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 20 265 TPLN.

Interest rate risk

The Group's interest-bearing borrowings typically bear floating interest rates (see Note 21). As at 31 December 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.

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.

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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.

35 Events after the Balance Sheet Date

- On January 25th 2007, preliminary non-binding memorandum of understanding was signed between AmRest and Starbucks Coffee EMEA B.V. ("Starbucks"). The memorandum relates to a possible cooperation in opening and operating Starbucks restaurants by a joint-venture of AmRest and Starbucks.
- On March 8th 2007, a development agreement was concluded with Burger King Europe GmbH, providing for opening and operating franchised Burger King restaurants in Poland. The details regarding the agreement are presented in Appendix 1. The first restaurant is scheduled to be opened in the second quarter of 2007
- On March 9th 2007, AmRest reported on the general terms and conditions of franchise agreements to be concluded with Burger King Europe GmbH each time a new Burger King restaurant is opened.
- On March 16th 2007, AmRest reported on obtaining acceptance of Yum!, the franchisor of KFC and Pizza Hut brands, regarding opening and operating restaurants under these brands in Bulgaria. As the Yum! brands are present on the Bulgarian market, where 11 KFC and Pizza Hut restaurants are now operating, AmRest does not hold exclusivity rights to operate such restaurants. In the initial phase of the investment project in Bulgaria, the Company focused on the development of KFC restaurants. The first KFC restaurants are to be opened by the end of 2007. Obtaining Yum!'s acceptance is another key step in the pursuit of the AmRest Group's strategy to strengthen the Group's market position in Central and Eastern Europe.arch 9th 2007, AmRest reported on the general terms and conditions of franchise agreements to be concluded with Burger King Europe GmbH each time a new Burger King restaurant is opened.

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