DIRECTORS' REPORT

AMREST HOLDINGS SE

FOR THE FIRST HALF OF 2008

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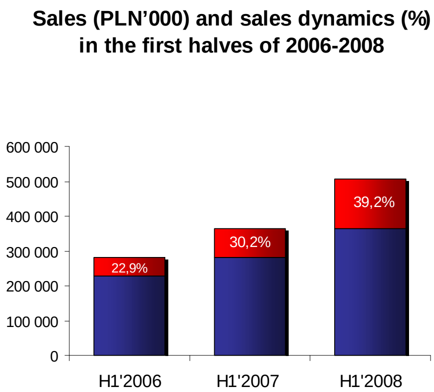
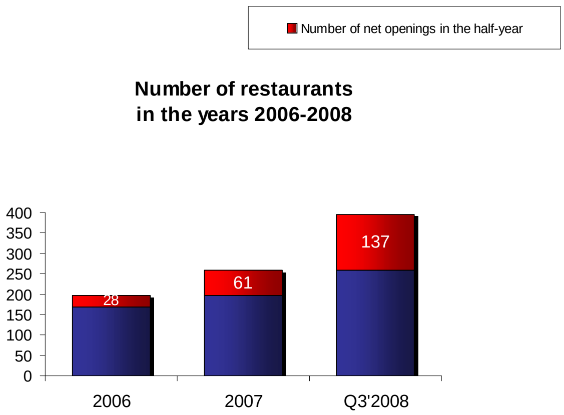
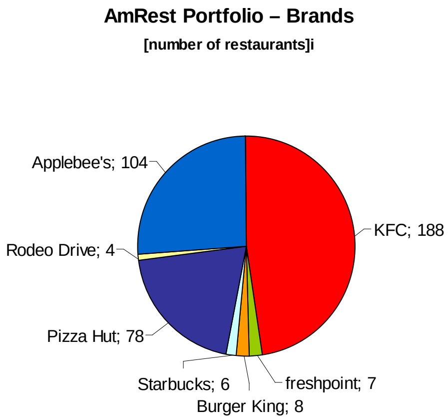
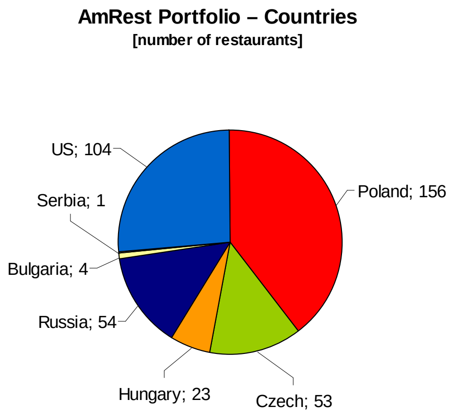








1. DESCRIPTION OF THE COMPANY

1.1. Basic services provided by the Group

AmRest Holdings SE ("AmRest") manages 7 restaurant brands in 7 countries in Central and Eastern Europe, and North America. Through our "Everything is Possible!" culture, close to 16 000 AmRest employees deliver craveable taste and exceptional service at affordable prices every day.

AmRest manages its restaurants in two restaurant sectors: Quick Service Restaurants (QSR) – KFC, Burger King, Starbucks and freshpoint, and Casual Dining Restaurants (CDR) – Pizza Hut, Applebee's and Rodeo Drive. Since the third quarter of 2008 the Company's portfolio has been enlarged to include a new brand, Applebee's, and a new market – the United States of America joined Poland, the Czech Republic, Hungary, Russia, Serbia and Bulgaria.

AmRest restaurants provide on-site catering services, take away services, drive-in services at special sales points and telephone deliveries. The AmRest restaurant menus include brand dishes prepared using fresh products in accordance with the original recipes and with KFC, Pizza Hut, Burger King, Starbucks and Applebee's chain standards, and dishes prepared on the basis of proprietary ideas (freshpoint and Rodeo Drive).

AmRest is the franchisee of Yum! Brands Inc. in respect of KFC and Pizza Hut brands. Burger King restaurants also operate on a franchise basis following from an agreement concluded with Burger King Europe GmbH. Starbucks restaurants are opened by joint-venture companies AmRest Coffee (82% AmRest and 18% Starbucks), which have the rights and licences to develop and manage Starbucks restaurants in Poland, the Czech Republic and Hungary. Applebee's restaurants also operate on a franchise basis, in accordance with the agreement with Applebee's International, Inc. Rodeo Drive and freshpoint are AmRest's proprietary brands, therefore sales in those restaurants are not encumbered with franchise fees.

a) Restaurants in the *Quick Service Restaurants (QSR)* segment

KFC is a quick service restaurant network serving various dishes based on the unique taste of chicken. The majority of the KFC products sold are meals comprising various pieces of chicken in the traditional Kentucky version, based on the original Colonel Sanders recipe, and a hot version - Hot& Spicy. Hot Wings are also characteristic for KFC. KFC also offers fresh salads, which vary depending on the season, cakes and deserts, hot and cold drinks. The chicken prepared in KFC is freshly marinated and crumb-coated every day at the restaurant, thus resulting in the highest quality flavour and quality of the served dishes. Suppliers of chickens to KFC meet the highest EU standards, and products are delivered to each restaurant many times during the week.

In terms of revenues and the number of restaurants, KFC AmRest is one of the largest network restaurant operators in Central and Eastern Europe. Restaurants built by AmRest in 2008 include both free standing restaurants, adapted to providing quick service to drivers, and restaurants located in shopping centres with common premises for customers and restaurants with their own customer service premises. KFC restaurants have also been established in towns where they were not previously present.

In 2008, KFC has sharpened its competitive edge around the unique flavour of their products. The KFC menu is systematically being enriched with promotional products such as Big Box – a set including different products, the sole such offer on the QSR market, and Hot Shots – an excellent snack in extremely handy packaging for take-away. In 2008 in most of KFC restaurants in Poland a "Free Refill" device was installed allowing clients to endlessly fill their glasses with their favourite drinks. Currently a totally new packaging line is being introduced – the process will be completed in the second half of the year.

In 2008, a strategic decision was taken to change the set-up in the kitchens. The change is aimed at increasing the production capacity adapting to the changing menu and ensuring optimum operating processes. In the foreseeable future, a restaurant with innovative solutions for energy-saving will be launched.

Despite the difficult situation on the Polish and Czech labour market, KFC increased the number of employees and certified managers in restaurants which allowed it not only to achieve greater client satisfaction, optimize the operating level and prepare for opening new restaurants.

KFC is one of the largest partners in the Corporate Social Responsibility foundation. 1% of its profits each month is earmarked for charity purposes for improving the lives of the most underprivileged children in North-West Poland.

In June 2008 AmRest signed a Development Agreement with Burger King Europe GmbH to open and run Burger King restaurants in Bulgaria, and in July 2008 Letters of Intent were signed in respect of three further markets – the Czech Republic, Slovakia and Slovenia. Currently the Company runs 6 Burger King restaurants in Poland and 2 in Bulgaria. The Burger King brand in the AmRest portfolio represents the Company's presence in the largest QSR sector. Burger King is the second largest quick service restaurant network in the world. Currently there are more than 11,000 Burger King restaurants in more than 65 countries.

The products on the menu of Burger King restaurants – large, tasty burgers prepared on open-fire grills – are addressed especially to men aged between 18-35. Apart from the *Whopper*, which is the key Burger King product, the restaurants offer a wide range of salads and chicken sandwiches. In accordance with the slogan "*Have It Your Way*", Burger King customers may make up their own burgers according to their fancy and culinary tastes. Burger King's mission is to deliver to customers the unique taste of flamed grilled burgers, served in a friendly and comfortable atmosphere. In the first half of 2008, AmRest introduced two exciting varieties of the *Whopper*. New promotional products, *Texas Whopper* and *Mexican Whopper*, were very well accepted by the clients. Another fixed element was introduced to the menu *X-cream* desserts, as part of the Burger King strategy relating to strengthening the restaurant in the dessert category.

AmRest Coffee started off this year with the very successful opening of the first Starbucks store in Prague's city centre in January 2008. Clients like to visit the first stores in Prague and enjoy the premium coffees and warm ambience. The Starbucks strategy is centered on providing a quantum leap in customer focus over any other retail brand in the market, as part of the drive to establish the "Third Place" environment for customers, a place where they can go to relax with friends apart from home or work. Our clients' reaction has been very positive and the satisfaction level very high. Local promotional actions such as volunteer actions in schools or coffee testing during all types of local events in the vicinity of our stores are also very positively received. The long-term goal is to ensure that Starbucks is considered a valued and respected member of the local community wherever it operates.

Since January, 2008 has featured rapid expansion in the Czech market. Currently, 6 Starbucks stores are operating on this market, and by the end of the year, several other openings are planned. In their work, management concentrate on recruitment, training talented and people-oriented baristas and managers, which is necessary for its further fast development while maintaining the highest quality standards and operating systems. AmRest Coffee will also be preparing to ensure that stores in Czech participate in the autumn launch of the global Shared Planet initiative, which reinforces Starbucks commitment to ethical sourcing of the finest arabica coffee beans available.

The second part of the year consisted of intense preparations to launch Starbucks in Poland. Actions have concentrated on looking for other locations which would reflect Starbucks brand aspirations. High expectations relating to the launch of the brand are interwoven with unending speculations in the Polish press as to the date and place of the launch. In accordance with the Starbucks brand philosophy, AmRest Coffee wants to offer coffee lovers the unique atmosphere of the Starbucks Experience. For this reason, the choice of location of the first coffee house is also especially crucial. The process of getting all the required permits is a little longer than initially anticipated, therefore the opening of the first Starbucks in Poland is planned in the first quarter of 2009. AmRest Coffee also holds the rights to develop the Starbucks brand in Hungary which will be the third market on which the brand will develop.

freshpoint kanapki prosto z pieca

The freshpoint sandwich restaurant network offers its clients a fresher and healthier alternative to eating out. The brand’s strategy is based on delivering fresh, hot sandwiches always prepared where the client can watch, quickly and at a reasonable price, and on exceptional client services.

The freshpoint product offer includes a wide range of sandwiches among which everyone will find something to suit themselves. There is a wide range of various bread, meats and vegetarian ingredients, and unique sauces. In 2008 the freshpoint product range was expanded with smoothies (fruit shakes made on the basis of crushed ice) and salads. In the current year, BIG ONE sandwiches were also launched – bread and rolls filled to the brim with a large number of ingredients. This change enables the Company to widen the freshpoint target group by offering meals for men.

The freshpoint restaurant network consists of 6 restaurants in Warsaw and 1 in Wrocław. At the beginning of 2008, AmRest decided to discontinue the further development of the brand until the results of the existing restaurants achieve a satisfactory level and until the new markets and new AmRest, Burger King and Starbucks brands achieve their critical mass. Despite freshpoint results having hugely improved since the beginning of the year, they have not yet achieved a satisfactory level. freshpoint's priority in the second half of the year is further improvement of the restaurants' financial results.

b) Restaurants from the *Casual Dining Restaurants (CDR)* segment

In July 2008 AmRest finalized the purchase of 80% of shares in AppleGrove, the second largest franchisee of Applebee's restaurants, operating 104 brand restaurants. The acquisition of those restaurants represents not only the entry of one of the strongest global restaurant brands on the American restaurant market but also a solid basis for further growth in the casual dining segment in both regions: Central and Eastern Europe and the USA. The results of 104 Applebee's restaurants will be consolidated in AmRest's total results from the 3rd quarter of 2008.

Applebee's Neighborhood Grill & Bar is the largest global network of casual dining restaurants – nearly 2,000 locations in the USA and 17 in other countries globally. The idea behind Applebee's – which was established in 1980 – was to create a space in the neighbourhood which would be willingly visited by friends – for its good food and friendly atmosphere, at a reasonable price. These assumptions still hold – Applebee's mission is to serve excellent American dishes at a good price, at the same time creating an atmosphere of neighbourly community.

Each Applebee's restaurant is designed so as to reflect its unique neighbourhood in the best possible way – the interiors relate to local historical events, sports teams, schools and organizations. The bar is usually the focal point of the restaurant which makes it open and friendly, and is conducive to integration during meals or when watching sports events together on the TV. The restaurant's menu is based on the most popular Applebee's specialities: *Honey Barbecue Riblets, Bourbon Street Steak* and *Oriental Chicken Salad*, but it also includes a wide range of side dishes, chicken, steak, burger dishes, sandwiches, salads and desserts. The bar offers a wide selection of beers, wines and drinks, including the famous *Perfect Margarita*.

At the turn of 2008 Applebee's introduced a new logo and updated its slogan *It's a Whole New Neighborhood* emphasizing the new direction the brand is taking. Applebee's can be differentiated from its casual dining competitors by being a restaurant "from the neighbourhood". In accordance with the brand's mission, each Applebee's restaurant gives back to its local communities through various efforts, including collecting funds for charity and special programmes supporting schools in offering prizes to – and motivating their students.

Pizza Hut is one of the largest chains of casual dining restaurants in Central and Eastern Europe which provides waiter service and a wide variety of dishes inspired by Mediterranean cuisine in the following lines of food: Pizza – Pasta – Salad. This year Pizza Hut is celebrating its 15th anniversary in Poland. The brand's strategy may, in short, be described as "Remarkable product, exceptional hospitality, every time" and specifies the brand's key priorities. Pizza Hut will endeavour to be a brand which is "available, every day, accessible", with products reflecting the needs and trends but also the task of promoting the idea of eating out and "sharing what's best" with friends and relatives.

In the first half of 2008, Pizza Hut opened several new restaurants in Poland's largest cities, a few further openings are planned in the second half of the year. General renovations of Poland's key restaurants, which had been planned, are also in progress. The development of the Pizza Hut brand confirms the good perspectives for the casual dining segment and the effect of business success which the brand has been experiencing in the last few years. With the new openings and renovations, the restaurants will be modified to a new, tuned and elegant version of interior design and the logo will be changed. Gradually, the process of renovation and logo change will include all the brand's restaurants.

The permanent components of Pizza Hut offer are sauté pasta, salad bar "eat all you can", freshly squeezed juices and "large refill" Pepsi. "Pasta straight from the oven" and the expanding list of salads are becoming more and more popular. The spring promotion of "Asian flavours" received very good opinions both in marketing research and direct conversations with clients, and one of the best selling Asian pizzas became a permanent part of the menu (Fusion).

Rodeo Drive (American Bar & Grill) is a *casual dining* restaurant serving dishes based chiefly on steaks, burgers and grilled ribs. Rodeo Drive restaurants have bars with full service offering a wide selection of drinks, beers and wines. The restaurants provide exceptional services creating a warm and friendly atmosphere. Rodeo Drive is a place where you can eat lunch, hold a business meeting and an evening party with friends and family. The décor of the restaurant refers to the tradition of the Wild West – wooden benches, tables, beams on the ceiling, stone elements on the walls, "ranch" gadgets: hats, saddles, cart wheels. The grill which is in full view of the visitors is an element which distinguishes Rodeo Drive and emphasizes the character of the restaurant. The restaurants are located in attractive, clearly visible locations and are capable of servicing up to 200 guests at a time.

Rodeo Drive means real American food – the food of the Wild West. The signature dish is beefsteak grilled over a slow fire. Another very popular dish is grilled spare ribs served with BBQ, chilli, garlic or honey sauce. The Rodeo Drive menu also includes a large selection of side dishes, soups, salads, burgers, and desserts.

Currently, AmRest operates 4 Rodeo Drive restaurants – 3 located in Poland and 1 in the Czech Republic. At the beginning of 2008, AmRest decided to discontinue the further development of the brand until the results of the existing restaurants achieve a satisfactory level and until the new markets and new AmRest brands, Burger King and Starbucks, achieve their critical mass. Despite Rodeo Drive results having hugely improved since the beginning of the year, they have not yet achieved a satisfactory level. Rodeo Drive's priority in the second half of the year is to further improve the restaurants' financial results.

c) New markets

At the end of the first half of 2008, a full year of operations of the Hungarian restaurants (acquired in June 2006) in the AmRest structures was completed. Currently, 13 KFC restaurants and 9 Pizza Hut restaurants are operating in Hungary, and all of them are run by AmRest. As a result of the increased scale of operations, in 2008, the first KFC restaurant TV campaign was begun in that country. In the first half of 2008 the process of renovating the oldest and largest restaurants located in Budapest was completed.

Consumer spending is still low in Hungary – this is reflected by lower sales in the restaurants. Nevertheless, in line with the increase in our scale of operations, our sales should also increase.

AmRest started operating on the Bulgarian market in November 2007 when the first KFC restaurant was opened in Sofia, with huge success. At that time the Company gained the right to open and run Burger King restaurants in the country. Currently AmRest operates 2 KFC and 2 Burger King restaurants on that market. On the basis of the positive results of the first restaurants, preparations began to open consecutive restaurants on this market for both brands.

The main aim in 2008 is to construct a strong KFC and Burger King team, the development of local suppliers and to prepare a central distribution system. The quickly developing Bulgarian market is a new experience for AmRest – operations are being conducted by the Company for the first time on a market on which other Yum! operators are already functioning. This experience will be used on other markets, such as the Russian market, where AmRest is engaging in operations in a similar environment.

After acquiring 41 RostiksKFC and Pizza Hut restaurants in Russia, in July 2007 AmRest actions concentrated on increasing the critical mass in Moscow. To-date, 11 of the 14 previously announced RostiksKFC restaurants in the city were acquired. AmRest will take up full control over the restaurants upon the actual transfer of the lease rights relating to particular locations. The acquisitions are taking more time than we initially planned – mainly as a result of the need to ensure that the construction of the agreements properly secures all the financial aspects of the transactions. Additionally, since the beginning of 2008, AmRest has opened 3 RostiksKFC restaurants in St. Petersburg.

Currently, in Russia AmRest is operating a total of 37 KFCRostiks and 17 Pizza Hut restaurants. The good organizational condition of the subsidiary in Russia allows the further expansion of AmRest on this market. Russia is a very dynamically developing restaurant market – analysts assess that it will grow at the rate of 30% per annum. The key areas of growth are still St. Petersburg and Moscow – the two most dynamically developing Russian agglomerations.

In November 2007, the first KFC restaurant on the Serbian market was opened in Belgrade, and this was accompanied by enormous interest on the part of the customers. After opening the first restaurant, despite the satisfactory results, the number of restaurants in the country did not increase. Further steps on the market will depend on the development of Serbia’s current political situation.

The acquisition of 80% of shares in AppleGrove, the operator of 104 Applebee’s restaurants in the USA, is another milestone in the history of AmRest. The transaction means the entrance of AmRest on the largest restaurant market in the world and significant strengthening of the Company’s Casual Dining Restaurants arm. The growth strategy on the American market assumes achieving sales of USD 1 billion within the next few years. Development in the USA will be realized mainly by consecutive acquisitions and consolidation within the Applebee’s brand. The following acquisitions will be executed in the regions close to the areas where restaurants run by AppleGrove operate. Further acquisitions that are announced will meet AmRest’s internal hurdle of 20% IRR. The purpose is the further use of the management of AppleGrove’s wide experience in consolidating Applebee’s business in the USA and using the potential of the Applebee’s brand – the largest casual dining network in the world. The results of the 104 Applebee’s restaurants will be consolidated in AmRest’s total results from the 3rd quarter of 2008.

1.2. Structure of revenues

The first half of 2008 was another period of increase in sales revenues for the AmRest Group – an increase of 39.2% was noted (PLN 507.6 million in the first half of 2008 compared with PLN 364.7 million in the first half of 2007). To compare, the CAGR sales ratio in the years 2004–2007 amounted to 22.3%. The high sales dynamics was achieved mainly thanks to the systematic increase in sales in the existing restaurants and sales revenues earned by the chain of restaurants in Russia. In the second half of 2008, sales in Russia amounted to PLN 60.6 million.

The AmRest Group generates most of its revenues in the Quick Service Restaurants (QSR) segment – KFC, Burger King, freshpoint and Starbucks. Revenues from the QSR segment comprised 80.3% of the Company's total sales in the first half of 2008 (78.5% in the first half of 2007). At the same time the sales growth in the segment amounted to 42.3%. The second AmRest segment, Casual Dining Restaurants (CDR), comprises Pizza Hut and Rodeo Drive restaurants, according to the status as at the end of the first half of 2008. Sales of CDR restaurants comprised 19.7% of the Company's total sales in the first half of 2008 (compared to 21.5% in the first half of 2007). Sales in this segment grew at a rate of 27.8%. Restaurants operating in the QSR segment had an 84.8% share in the total increase in sales and CDR restaurants a 15.2% share.

Table: Structure of AmRest sales by business segment

	H1 2008		H1 2007	
SEGMENTS	**PLN'000**	**share (%)**	**PLN'000**	**share (%)**
Quick Service Restaurants	407 536	80.3%	286 391	78.5%
Casual Dining Restaurants	100 044	19.7%	78 269	21.6%
Total	**507 580**	**100.00%**	**364 660**	**100.00%**

In the first half of 2008, AmRest generated 63.2% of its sales in Poland compared with 68.6% in the first half of 2007. The share of the Czech Republic also dropped from 25.2% in the first half of 2007 to 19.8% in the first half of 2008. Russian restaurants had an 11.9% share in the semi-annual sales of AmRest in the first half of 2008.

The sales dynamics of Polish restaurants in the first half of 2008 amounted to 28.3% compared with 9.5% for Czech restaurants. Restaurants operating in Poland had a 49.5% share in the total sales increase, restaurants in the Czech Republic 6.1%, restaurants in Russia 42.4% and restaurants in other countries 2.0%.

Table: Structure of AmRest sales by country

COUNTRY	H1 2008 PLN'000	H1 2008 share (%)	H1 2007 PLN'000	H1 2007 share (%)
Poland	320 805	63.2%	250 021	68.6%
Czech Republic	100 664	19.8%	91 915	25.2%
Russia	60 554	11.9%	0	-
Other	25 557	5.1%	22 724	6.2%
Total	**507 580**	**100.00%**	**364 660**	**100.00%**

The Company's sales are characterized by seasonality. The lowest sales were achieved by restaurants in the first quarter of the year, due to the smaller number of business days in February and lower number of visitors to restaurants. The second quarter of the year, in which higher results are achieved due to improved weather conditions, and the positive impact of the month of June when the holidays begin, is second. The best results are achieved at the turn of the third and fourth quarters of the year. In the third quarter of the year a material factor with an impact on the very good results is the increased tourist traffic. The autumn period is traditionally associated with a large number of customer visits to restaurants and in effect, good sales results. In the last months of the year the Christmas season is very visible and restaurants located in shopping centres generate exceptionally good results.

1.3. Clients

AmRest products are directed to a wide circle of individual clients via a chain of proprietary restaurants located in Poland, the Czech Republic, Hungary, Russia, Serbia and Bulgaria, mainly located in cities or in their vicinity.

In Poland which represents ca. 65% of revenues of the AmRest Group, the target group of potential KFC clients are people aged between 15 and 39 who comprise about 74% of all the restaurants' guests. Around 70% have at least secondary school education and over 61% live in towns with a population exceeding 20 000. The key target group of Pizza Hut customers, about 73%, are people aged between 15 and 39. About 69% of Pizza Hut customers have at least secondary school education and 64% of them live in towns with more than 20,000 inhabitants.

1.4. Suppliers

At the beginning of 2008 the consumer price index in Europe achieved a very high level, mainly as a result of an increase in the prices of fuels, energy and food. Despite unfavourable trends on the global markets, AmRest Group is able to increase its competitive edge in this area by applying appropriate actions. Although during the period AmRest also noted an increase in the level of costs in the food and packaging segment, at a much lower level than inflation in the countries where AmRest has its restaurants. This was possible thanks to the long-term Supply Chain Management strategy based on:

- central distribution which allows AmRest to consolidate purchases and price negotiations as well as direct cooperation with food and packaging manufacturers and – first and foremost – to create a system whereby restaurant employees may concentrate exclusively on the final client. In 2007, companies which do not have central distribution systems were significantly affected by the increase in prices at each stage;

- cooperation with suppliers who have implemented or are implementing a vertical integration system. This is especially significant in the case of chicken produce – such a solution means that the cost of raw materials, i.e. fodder, is the factor with a real impact on the final manufacturing cost. The vertical integration system allows the Company access to data which enables it to determine the optimum manufacturing costs of a chicken – from the stage of an egg right up to the final product;

- consolidation of purchases by exporting products of AmRest suppliers to the Yum! system in Western Europe and Russia. This allows suppliers to invest in new technologies and achieve economies of scale;

- consolidation of purchases at the level of raw materials – knowing the specific parameters of production, AmRest is able to negotiate raw material prices for its suppliers which means an increase in scale in this respect and the ability to make the purchases at the appropriate time;

AmRest food products strategy stipulates ensuring quality, services in accordance with the standards in force in the Company and competitiveness on the market – after the first two requirements have been met.

Another element which was emphasized in the last six months was adapting the requirements in Hungary and Russia to the level which the logistics firms in Poland and Czech have to meet. Therefore:

- a distribution agreement was signed with Lekkerland company in Hungary supporting the development of the brands on the market and on the adjacent markets

- standard KPIs were introduced for distributors in Hungary and Russia

- McLane company launched a new warehouse with three temperature levels (dry, refrigerated and frozen products) in Czeladź, the warehouse services restaurants in the south of Poland but is also an important element in the contingency plan for restaurants in Poland and the Czech Republic.

At the end of the first half of 2008, the inflation pressure in the food industry was mitigated which was best seen in the production of milk-based products. Corn crops in Poland are lower than in the previous year, but very good crops in Europe and in the Ukraine and Russia should contribute to the normalization on the food market in Europe.

The list of largest AmRest suppliers:

1. McLane – distributor in Poland
2. Agropol Food – supplier of chicken products in the Czech Republic
3. Drobimex – supplier of chicken products in Poland
4. Dachster E.S.T . – distributor in the Czech Republic
5. Pepsi – drinks
6. Konspol – supplier of chicken products in Poland
7. Huhtamaki – packaging
8. Vandermortele – shortening
9. Bona Agra – vegetables
10. AVIKO – fries

2. MANAGEMENT AND SUPERVISORY BODIES OF THE COMPANY

On 23 August 2007 a Member of the Supervisory Board of AmRest, Mr Christian Eisenbeiss, resigned as Chairman of the Supervisory Board. Mr Christian Eisenbeiss resigned for personal reasons. After the resignation of Mr Eisenbeiss, Mr Donald Kendall Jr. is acting as Chairman of the Supervisory Board. On 31 March 2008, Mr Per Steen Breimyr, resigned as Member of the Supervisory Board due to a conflict of interests after taking up a new job.

During the General Shareholders' Meeting of AmRest which took place on 23 June 2008 resolutions were passed relating to supplementing the Supervisory Board and changes to the composition of the Management Board of AmRest. Mr Henry McGovern and Mr Michael Tseytin supplemented the Supervisory Board of AmRest. Mr Henry McGovern was selected Chairman of the Supervisory Board of AmRest by Members of the Supervisory Board. At the same time, Mr Wojciech Mroczyński and Mr Jacek Trybuchowski became Members of the Management Board of AmRest.

a) Management Board

The Management Board of AmRest comprises:

Wojciech Mroczyński

Jacek Trybuchowski

b) Supervisory Board

The Supervisory Board of AmRest comprises:

Henry McGovern

Donald Macintosh Kendall Sr.

Donald Macintosh Kendall Jr.

Przemysław Aleksander Schmidt

Jan Sykora

Michael Tseytin

3. FINANCIAL POSITION OF THE COMPANY

3.1. Assessment of the Company's results and the structure of its balance sheet

Table: Basic financial data of AmRest (first halves of 2006-2008)

in PLN thousand, unless otherwise stated	**H1 2008**	**H1 2007**	**H1 2006**
Sales revenue	507 582	364 660	280 009
Operating profit before amortization and depreciation (PLN'000 EBITDA)	61 175	54 777	39 359
Operating margin after amortization and depreciation (EBITDA margin)	*12.1%*	*15.0%*	*14.1%*
Operating profit (loss) (PLN'000)	32 306	32 230	18 412
Operating margin (EBIT margin)	*6.4%*	*8.8%*	*6.6%*
Profit (loss) before tax (PLN'000)	32 049	30 723	22 082
Gross margin	*6.3%*	*8.4%*	*7.9%*
The net profit/(loss) relating to the parent company (PLN'000)	23 794	24 829	18 909
Net profitability	*4.7%*	*6.8%*	*6.8%*
Equity	294 914	184 091	139 473
Return on equity (ROE)	*16%*	*29%*	*29%*
Total assets	649 811	339 862	299 649
Return on assets (ROA)	*8%*	*15%*	*13%*

Definitions:

- *Operating margin after amortization and depreciation – operating profit before amortization and depreciation (EBITDA) to sales;*
- *Operating margin – operating profit to sales;*
- *Gross margin – profit before tax to sales;*
- *Net profitability – net profit to sales;*
- *Return on equity (ROE) – net profit to average equity;*
- *Return on assets (ROA) – net profit to average assets.*

Table: Liquidity analysis (first halves of 2006-2008)

(in PLN thousand, unless otherwise stated)	H1 2008	H1 2007	H1 2006
Current assets	102 852	65 230	46 295
Inventories	9 691	8 671	7 416
Current liabilities	172 567	85 227	74 296
Quick ratio	*0.54*	*0.66*	*0.52*
Current ratio	*0.60*	*0.77*	*0.62*
Cash and cash equivalents	35 583	39 068	20 613
Cash ratio	*0.21*	*0.46*	*0.28*
Inventory turnover (in days)	*3.83*	*4.21*	*4.36*
Trade receivables	29 763	10 412	9 481
Trade receivables turnover (in days)	*11.55*	*5.47*	*7.48*
Operating ratio (cycle) (in days)	*15.38*	*9.68*	*11.84*
Trade payables	116 257	75 679	64 871
Trade payables turnover (in days)	*40.95*	*38.43*	*39.03*
Cash conversion ratio (in days)	*(25.57)*	*(28.75)*	*(27.19)*

Definitions:

- *Quick ratio – current assets net of inventories to current liabilities;*
- *Current ratio – current assets to current liabilities;*
- *Cash ratio – cash and cash equivalents to current liabilities at the end of the period;*
- *Inventories turnover ratio (in days) – average inventories to sales multiplied by the number of days in the period;*
- *Receivables turnover ratio (in days) – average trade receivables to sales multiplied by the number of days in the period;*
- *Operating ratio (cycle) (in days) – total of inventories turnover and receivables turnover;*
- *Payables turnover ratio (in days) – ratio of average trade payables to sales multiplied by the number of days in the period; Receivables turnover ratio (in days) – average trade receivables to sales multiplied by the number of days in the period;*
- *Cash conversion ratio – difference between the operating ratio (cycle) and the payables turnover ratio.*

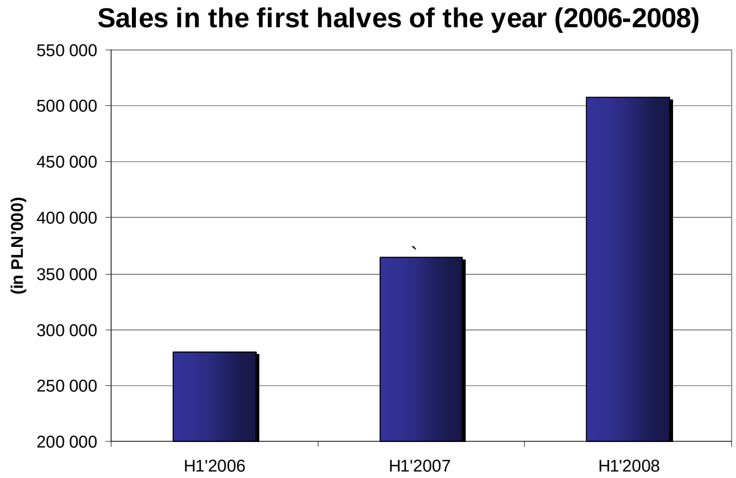
Table: Debt analysis (first halves of 2006-2008)

(in PLN thousand, unless otherwise stated)	**H1 2008**	**H1 2007**	**H1 2006**
Current assets	102 852	65 230	46 295
Non-current assets	546 959	274 632	253 354
Trade and other receivables	29 763	10 412	9 481
Liabilities	354 897	155 771	160 176
Long-term liabilities	180 459	70 544	85 880
Debt	209 773	67 894	82 952
Share of inventories in current assets (%)	*9,42%*	*13.29%*	*16.02%*
Share of trade receivables in current assets (%)	*28,94%*	*15.96%*	*20.48%*
Share of cash and cash equivalents in current assets (%)	*34,60%*	*59.89%*	*44.53%*
Equity to non-current assets ratio	*0.54x*	*0.67x*	*0.55x*
Debt ratio	*0,55x*	*0.46x*	*0.53x*
Long-term debt ratio	*0,62x*	*0.38x*	*0.62x*
Liabilities to equity ratio	*1.2x*	*0.8x*	*1.1x*
Debt/equity	*0.7x*	*0.4x*	*0.6x*
Debt/EBITDA	*1.7x*	*0.6x*	*1.1x*

Definitions:

- *Share of inventories, trade receivables, cash and cash equivalents in current assets – ratio of, respectively, inventories, trade receivables and cash and cash equivalents to current assets*
- *Equity to non-current assets ratio –- equity to non-current assets;*
- *Debt ratio – total liabilities and provisions to total assets;*
- *Long-term debt ratio – long-term liabilities to total assets;*
- *Liabilities to equity – liabilities and provisions as at the end of a given period to the value of equity.*
- *Debt – total long-term and short-term loans and borrowings*

The sales revenue of AmRest in the first half of 2008 amounted to PLN 507 582 thousand and increased by 39.2% compared with the respective period of 2007. The increase in sales was achieved mainly thanks to a systematic increase in sales by the existing restaurants and sales of the chain of restaurants in Russia. The second quarter of 2008 is the fourth quarter in which sales of the Russian restaurants are accounted for in the Group's results. In the first half of 2008, sales in Russia amounted to PLN 60 554 thousand.



Operating profit in the first half of 2008 amounted to PLN 66 781 thousand and increased by 26.6% compared with the same period of 2007. The gross margin in the first half of 2008 amounted to 13.2% (compared with 14.5% in the same period of 2007). Higher costs of food, payroll and employee benefits, occupancy and other operating expenses relative to sales had a negative impact on the results in the first half of 2008.

The relative increase in costs of food relative to sales on the Polish and Czech market had a main impact on the increase in the said costs in the first half of 2008. The increase in payroll and employee benefits, is related to the overall trends observed on the labour market, also in Poland and the Czech Republic. This relates mainly to payroll and employee benefits of the crew. The increase in occupancy and other operating expenses is caused mainly by relatively higher costs of lease of the Russian restaurants whose results were not included in the consolidated AmRest results for the same period of 2007. This is related to general trends observed on the Russian real estate market.

In the first half of 2008 the Company's marketing expenses increased to 4.7% relative to sales (compared with 4.3% in the same period of 2007) and amounted to PLN 23 991 thousand. This difference is principally a result of irregular arrangement of marketing expenditures in a year.

Operating profit in the first half of 2008 amounted to PLN 32 306 thousand (compared with PLN 32 230 thousand in the same period of 2007), and EBITDA amounted to PLN 61 175 thousand (compared with PLN 54 777 thousand in the same period of 2007). In connection with the decrease in the gross margin and relatively higher general and administrative expenses in the first half of 2008, the operating profit margin and EBITDA margin dropped and amounted to 6.4% and 12.1% respectively (compared with 8.8% and 15.0% in 2007). The observed decrease in margin is related mainly to increased start-up costs relating to the expansion of the Company's operations (launching new restaurant brands Burger King and Starbucks, and expansion to new markets).

In the first half of 2008, net profit amounted to PLN 23 794 thousand, and the net profit margin amounted to 4.7%. Differences in the result on financing operations between the first half of 2008 and the same period of 2007 relate mainly to the positive FX differences in respect of loans between AmRest Group entities, only partly compensated by the interest expense resulting from higher gearing.

The relative increase in trade payables and increased financing of operations with trade credit led to a small drop in the quick and current ratios compared with the first half of 2007. In the first half of 2008, those ratios amounted to 0.54 and 0.60 respectively, compared with 0.66 and 0.77 as at the end of the first half of 2007. Due to the fact that as at the end of the first half of 2008 the balance of cash and cash equivalents dropped slightly and the level of short-term payables increased significantly (compared to the first half of 2007), the cash ratio dropped to 0.21 compared with 0.46 as at the end of the first half of 2007.

Thanks to the expanding scale of the Group and knowledgeable management of the supply chain the level of inventories dropped slightly compared with the end of the first half of 2007. Thanks to this, inventory turnover amounted to 3.8 days in the first half of 2008 compared with 4.2 days in the first half of 2007. Maintaining the cash conversion ratio at a level similar to the first half of 2007 enables the Group to continue financing the current operations with trade credit.

The increased level of trade receivables at the end of H1'2008 is mainly a result of receivables recognized with reference to purchase of OOO Pizza Nord, the operator of 41 restaurants in Russia, dated July 2007.

The above liquidity ratios are at a level that ensures uninterrupted operation. Generating surplus cash inflows on a current basis allows efficient servicing of the existing debt and financing of the planned investment expenditure.

Equity increased from PLN 293 463 thousand as at the end of 2007 to PLN 297 361 thousand as at the end of the first half of 2008. The debt to equity ratio increased slightly – from 0.4 as at the end of the first half of 2007 to 0.7 as at the end of the first half of 2008. The debt to EBITDA ratio amounted to 1.7 (compared to 0.6 as at the end of the first half of 2007).

Total assets as at the end of the first half of 2008 amounted to PLN 649 811 thousand and increased by 8.9% compared with the balance as at the end of 2007. This was caused mainly by an increase in the value of non-current assets related to the construction of new restaurants and taking over 10 restaurants in Moscow. The Company's total liabilities increased by 17.1% compared with the end of 2007 (mainly as a result of an increase in long-term liabilities) and amounted to PLN 354 897 thousand.

3.2. Description of key domestic and foreign investments.

The table below presents purchases of non-current assets in H1'2008 and comparable data for H1'2007.

Table: Purchases of non-current assets in AmRest Holdings SE

Value in PLN'000		2008	2008
Intangible assets, including:			
	Licences for the use of Pizza Hut and KFC trademarks	2 231	1 063
	Goodwill	38 037	-
	Other intangible assets	2 214	2 910
Fixed assets, including:			
	Buildings	34 852	3 850
	Equipment	15 306	7 465
	Vehicles	53	-
	Other (in consideration of fixed assets under construction)	12 881	33 864
Total		**105 574**	**49 152**

The investment expenditure incurred by AmRest relates mainly to new restaurants and the reconstruction and replacement of the value of non-current assets in the existing restaurants. In 2008, the acquisition of 14 restaurants in Russia also had an impact on investment expenditure. The Company's investment expenditure depends mainly on the number and type of restaurants opened.

Table: Number of restaurants of AmRest Holdings SE (2006-2008)

As at	30.09.2008	31.12.2007	31.12.2006
Number of restaurants			
Pizza Hut in Poland	52	50	52
Pizza Hut in Hungary	9	9	12
Pizza Hut in Russia	17	18	0
KFC in Poland	88	85	79
KFC in the Czech Republic	46	44	43
KFC in Hungary	14	13	5
KFC in Russia	37	22	0
KFC in Serbia	1	1	0
KFC in Bulgaria	2	1	0
Burger King in Poland	6	4	0
Burger King in Bulgaria	2	0	0
Starbucks in the Czech Republic	6	0	0
freshpoint in Poland	7	7	4
Rodeo Drive in Poland	3	3	1
Rodeo Drive in the Czech Republic	1	1	1
Applebee's in US	104	0	0
Total	**395**	**258**	**197**
Total opened restaurants	141	72	33
Total closed restaurants	4	11	5
Net increase in the number of restaurants in the reporting period	**137**	**61**	**28**

In 2008, by acquiring 104 Applebee's restaurants, AmRest entered the American market which is the largest restaurant market in the world. As a result of the acquisition, AmRest, by strengthening its Casual Dining Restaurants arm, significantly diversified its portfolio. The Company operates restaurants in two restaurant sectors: Quick Service Restaurants (QSR) – KFC, Burger King, Starbucks and freshpoint and Casual Dining Restaurants (CDR) – Pizza Hut, Rodeo Drive and Applebee's. AmRest manages a total of 7 restaurant brands in 7 countries.

Since the beginning of 2008, the first Starbucks stores have been opened in the Czech Republic (a total of 6) and the first Burger King restaurants in Bulgaria (a total of 2). Additionally, letters of intent were signed relating to the development of the Burger King brand on three new markets: the Czech Republic, Slovakia and Slovenia. In that period a Memorandum of Understanding was also signed with Americana relating to the establishment of a joint venture (50/50) to run RostiksKFC and Pizza Hut restaurants in the Ukraine.

Since the beginning of 2008, 141 restaurants have been added to the portfolio of AmRest, mainly as a result of acquiring restaurants in the USA. Among the 22 KFC restaurants added to the AmRest portfolio since the beginning of 2008, 11 were acquired as a result of the transfer of rights to restaurants run by OOO Tetra and OOO FFRG in Moscow. Additionally, 4 Burger King restaurants and 6 Starbucks stores have been opened.

In the period discussed above, a total of 4 restaurants have been closed. The closures were mainly due to the reorganization of the Pizza Hut brand in Poland.

3.3. Major events with a significant impact on the Company's operations and results

Acquisitions

a) Russia

In March 2008 AmRest signed the following final agreements: The Asset Purchase Agreement and the Agreement for Consideration, relating to 5 RostiksKFC restaurants run by the OOO Fast Food Restaurants Group ("FFRG"). The total amount of the transaction relating to both agreements amounted to USD 6.15 million. The Agreement for Consideration stipulates that the amounts relating to particular restaurants will be made after the actual transfer of lease rights relating to particular locations from FFRG to AmRest. Earlier, in February 2008, AmRest signed similar agreements relating to 9 RostiksKFC restaurants run by OOO Tetra. The Company will take up full control over the Tetra and FFRG restaurants upon the actual transfer of the rights.

The transfer of rights relating to operating the 14 restaurants specified above was conducted mainly during the 2nd quarter of 2008. All the restaurants specified above are located in Moscow. According to the balance as at the end of the second quarter, rights to 11 of the 14 restaurants were actually transferred to AmRest. AmRest Group's efforts concentrate on increasing the critical mass in Moscow by consolidating the RostiksKFC brand. After the final transfer of all 14 RostiksKFC restaurants, AmRest will manage a total of 40 RostiksKFC restaurants and 17 Pizza Hut restaurants in Russia.

b) United States

On 9 July 2008, AmRest informed of the finalization of the Acquisition Agreement for 80% of Ownership Shares ("Acquisition Agreement") in AppleGrove Holdings, LLC ("AGH"), the operator of 104 Applebee's restaurants in the United States. The details of the Acquisition Agreement were described in RB 28/2008 dated 20 May 2008. The results of the restaurants will be consolidated in AmRest's total results as of the 3rd quarter of 2008.

The entrance to the American restaurant market through the acquisition of 104 Applebee's restaurants is another milestone in the history of AmRest. The transaction is part of the strategy relating to wider cooperation with Applebee's, a lead global casual dining brand. The

Company intends to develop the newly acquired brand and increase its involvement on the market by making further acquisitions. During the next few years, AmRest plans to achieve sales worth USD 1 billion on the American market. Despite AmRest's plans to continue its growth strategy in the United States, the strategy relating to domination in Central and Eastern Europe remains unchanged and is a priority during the next few years.

As a result of the acquisition, AmRest, by strengthening its Casual Dining Restaurants arm, significantly diversified its portfolio. Currently, the Company operates restaurants in two restaurant sectors: Quick Service Restaurants (QSR) – KFC, Burger King, Starbucks and freshpoint, and Casual Dining Restaurants (CDR) – Pizza Hut, Rodeo Drive and Applebee's. AmRest manages a total of 7 restaurant brands in 7 countries.

c) Poland

On 21 August 2008 AmRest announced a Call for the sale of shares in Sfinks Polska S.A. Sfinks is a company quoted on the Warsaw Stock Exchange which operates following restaurants: Sphinx (111 restaurants), Chłopskie Jadło (11) and WOOK (4).

When the call for subscription for the sale of 11.20% Sfinks shares ("the Call") was announced, AmRest Polska held 1 329 192 Sfinks shares, which is 14.32% of Sfinks' share capital and gives the rights to 1 329 192 votes, i.e. 14.32% of the total number of votes at the General Shareholders' Meeting of Sfinks. The price at which the shares covered by the Call were purchased is PLN 19.41 per one share of Sfinks. The term of the Call lapsed on 16 September 2008. The Call was settled on 22 September 2008. As a result of the settlement of the Call, AmRest Polska acquired 1 039 467 Sfinks shares which is 11.20% of the Company's share capital and gives rights to 1 039 467 votes, i.e. 11.20% of the total number of votes at the Company's General Shareholders' Meeting.

Moreover, after the lapse of the term of the Call, AmRest Polska acquired Sfinks' shares on the Warsaw Stock Exchange ("Exchange Transactions"). The Exchange Transactions were settled on 22 September 2008. As a result of the settlement of the Exchange Transactions, AmRest Polska acquired 692 109 Sfinks shares which is 7.46% of the Company's share capital and gives rights to 692 109 votes, i.e. 7.46% of the total number of votes at the Company's General Shareholders' Meeting.

As a result of the settlement of the Call and the Exchange Transactions, AmRest Polska acquired a total of 1 731 576 Sfinks shares. After the settlement of the Call and the Exchange Transactions, as at 22 September 2008, AmRest Polska held 3 060 768 Sfinks shares, which is 32.98% of the company's share capital and authorizes to 3 060 768 votes, i.e. 32.98% of the total number of votes at the company's General Shareholders' Meeting.

On 23 September 2008, AmRest also clearly specified its intentions determined in the notification dated 21 August 2008, constituting its strategic investment aimed at integrating the operations of both companies. Ultimately, AmRest intends to acquire up to 100% of Sfinks shares.

New brands

a) Burger King

On 11 June 2008 a Development Agreement was signed with Burger King Europe GmbH relating to opening and running the Burger King restaurants in the territory of Bulgaria on a franchise basis. The details of the Agreement are described in RB 42/2008 dated 11 June 2008. On the same date, AmRest informed of the framework terms of the Franchise Agreements concluded each time with Burger King Europe GmbH on the opening of particular Burger King restaurants in Bulgaria. The details of the Agreement are described in RB 43/2008 dated 11 June 2008. On 18 June 2008, AmRest informed of the opening of the first Burger King restaurant in Bulgaria.

On 4 July 2008, AmRest informed of signing Letters of Intent between AmRest and Burger King Europe GmbH ("BKE") relating to three new markets: the Czech Republic, Slovakia and Slovenia. Currently negotiations are in progress to determine the content and terms and conditions of the Development Agreements and Franchise Agreements for these three markets.

AmRest already has the rights to open and run Burger King restaurants in Poland and Bulgaria. Currently the Company runs 6 Burger King restaurants in Poland and 2 in Bulgaria.

b) Starbucks

In accordance with the agreements signed by and between AmRest and Starbucks relating to the development and running of Starbucks stores in Poland, the Czech Republic and Hungary – the first Starbucks store was opened by AmRest Coffee Czech Republic on 22 January 2008 in Prague. Currently, 6 Starbucks stores operate in the Czech Republic. The opening of the first Starbucks store in Poland is planned in the first quarter of 2009.

c) Applebee's

At the beginning of July 2008 a transaction for acquiring 104 Applebee's restaurants operating in US was finalized. AppleGrove, which manages the restaurants is the second largest franchisee in the Applebee's system. The results of those Applebee's restaurants will be consolidated in AmRest's total results from the 3rd quarter of 2008. More information on the Applebee's brand, acquisition of AppleGrove and the growth strategy on the American market was included respectively in 1.1.b), 3.3.b) and 4.3.b)

AmRest

New markets

a) The Ukraine

On 28 July 2008, AmRest informed of signing a non-binding Memorandum of Understanding (MOU) between AmRest and Kuwait Food Company S.A.K. (Americana). Parties to the MOU expressed their will to enter into negotiations relating to signing a Joint Venture Agreement (JVA) and establishing a Joint Venture Company (JVC) to operate RostiksKFC and Pizza Hut restaurants in the Ukraine. The parties intend to take up shares in JVC in the following proportions – 50% AmRest and 50% Americana. The condition for signing JVA will be obtaining Yum!'s consent for joint development of the RostiksKFC and Pizza Hut brands in the Ukraine. MOU shall be binding until the JVA is signed, but no longer than until 31 December 2008. Further details of the agreement are described in RB64/2008 dated 28 July 2008. AmRest first informed of its plans relating to the Ukraine at time at the end of 2005, and in autumn 2006, the Company decided to delay the development of its business in that market for a few years (RB 32/2006 dated 3 October 2006). The Ukraine is the second largest market in the region, after Russia, which fits very well into the strategy of AmRest which assumes domination in Central and Eastern Europe.

b) Slovakia and Slovenia

On 4 July 2008 AmRest informed of signing Letters of Intent between AmRest and Burger King Europe GmbH ("BKE") relating to opening and running Burger King restaurants on three new markets: the Czech Republic, Slovakia and Slovenia. Currently negotiations are in progress to determine the content and terms and conditions of the Development Agreements and Franchise Agreements for these three markets.

Other

On 17 April 2008 a Distribution Agreement was signed by and between AmRest Hungary and Lekkerland Export-Import Kft. ("the Distributor"). The subject matter of the Agreement is the provision of distribution services by the Distributor on behalf of restaurants operated by AmRest Hungary. The products and components delivered must meet the stringent standards of AmRest and Yum! and come from authorized, checked suppliers. In accordance with the Agreement, in return for the services provided, the Distributor is entitled to a fee calculated as a percentage of the value of the goods delivered. The contract was signed for a period of 3 years with the possibility of its extension.

On 15 May 2008, an annexe was signed to the agreements relating to the delivery of drinks to AmRest restaurants in Poland and the Czech Republic which had been concluded with Pepsi-Cola International, Pepsi-Cola General Bottlers Poland Sp. z o.o. and General Bottlers CR s.r.o (jointly "Pepsi-Cola") on 23 March 2005. In accordance with the annexe, the agreements were extended to 31 December 2012. In connection with the extension of the agreements, AmRest will receive additional marketing funds from Pepsi-Cola, in proportion to the period for which the agreement was extended, on condition that sales remain at least at the current level. Additionally, AmRest Hungary and Fövárosi Ásványvíz és Űditöipari Rt. ("Pepsi-Cola Hungary") and PepsiCo International terminated the former agreement and signed a new agreement on the terms and conditions in force in Poland and the Czech Republic. The agreement is also binding until 31 December 2012. Signing the above-mentioned documents will enable AmRest to optimize its selling costs in the drinks sector and standardize the marketing policy on the three markets referred to above.

On 20 May 2008, the Management Board of AmRest informed of the intention to transform AmRest, a Netherlands Company, into a European company (Societas Europaea). The transformation of AmRest into a European Company is aimed at increasing the effectiveness of the Company, i.e. improving the transparency of AmRest and reducing the operating and administrative expenses, and enabling the transfer of its registered office from Amsterdam (the Netherlands) to Wrocław (Poland), which is planned after the transformation of the Company into a European Company (RB 29/2008 dated 20 May 2008).

On 27 May 2008, AmRest informed of registering changes in the Company's share capital by the Commercial Chamber in Amsterdam. In accordance with the confirmation received, the issued capital of the Company was increased from EUR 141,706.06 to EUR 141,863.56 (from 14,170,606 shares to 14,186,356 shares). The nominal value of one share of AmRest us equal to EUR 0.01. After registering the changes, the total number of votes following from all the AmRest shares issued amounts to 14,186,356 (100% of the total number of votes). The issue of 15,750 ordinary bearer shares of AmRest results from exercising the Employee Option Programme. The shares were accepted to the National Securities Deposit in Poland on 3 June 2008, and on 11 June 2008 they were introduced to trading on the main market of the Warsaw Stock Exchange.

On 23 June 2008, the Annual General Shareholders' Meeting of AmRest took place. Shareholders holding at least 5% of the total number of voting rights at the General Shareholders' Meeting were listed in RB 51/2008 dated 23 June 2008. The General Shareholders' Meeting did not forego any of the items on the agenda and passed resolutions relating to the approval of the financial statements for the financial year 2007, appropriation of the 2007 profit to offset prior years' losses, approving the operations of the Members of the Supervisory Board and Management Board described in Point 2 and transforming AmRest into a European Company, as described above. The contents of all the resolutions passed are included in the Appendix to RB 50/2008 dated 23 June 2008.

On 22 September 2008 AmRest informed about conversion of AmRest into European Company (Societas Europaea). The new legal form, AmRest Holdings SE, was registered by Amsterdam's Chamber of Commerce on 19 September 2008. The conversion of AmRest into European Company was effectuated in accordance with Article 37 Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European Company (SE). The decision to convert AmRest into European Company was made by Annual General Meeting of AmRest Shareholders – Resolution No 9 dated 23 June 2008 (RB 50/2008 dated 23 June 2008). The conversion of AmRest into European Company will have no consequences with respect to third party relations.

3.4. Planned investment activities and assessment of their feasibility

AmRest's purpose in Central and Eastern Europe is to further develop the core brands, KFC and Pizza Hut, by opening new restaurants and increasing sales in the existing ones; developing new brands – Burger King and Starbucks – and engaging in regional expansion by entering new markets in the region. The growth strategy on the American market assumes achieving sales of USD 1 billion within the next few years, mainly as a result of further acquisitions.

AmRest maintains a high rate of growth and opens several restaurants a year in Central and Eastern Europe. The smaller number of openings in 2008 (compared with the plan) is mainly due to reasons independent of AmRest – as a result of the new act limiting the development of large-area facilities in Poland, many openings of new commercial centres in which AmRest opens about 30-40% of their new restaurants were delayed. The unfavourable act was annulled by the Constitutional Tribunal in Poland only in mid 2008, as a result of which many openings planned for 2008 were transferred to 2009.

In the foreseeable future, KFC will remain AmRest's main motor of growth in Central and Eastern Europe – a total of ca. 50% of all planned openings in 2008. The Polish market, which still had the largest share in AmRest sales in 2007, will be the Group's key driving force in 2008 – a total of ca. 50% of all openings. AmRest estimates that in further periods the burden of development in further periods will be borne by: the Russian market, Burger King and Starbucks. It should be added that the plan for new openings will be adapted on a current basis to market conditions and the possibilities of acquiring new attractive locations in particular countries.

The average cost of opening a new AmRest restaurant in Central and Eastern Europe differs depending on location and type of restaurant and amounts on an average to PLN 2.3 million. Moreover, the Company stipulates continuing the constant modernization programme of the existing restaurants – in 2008 the AmRest Group plans to spend ca. PLN 50 million on this programme. A large part of the renovation budget will be spent on modernization operations in Poland.

The AmRest Group intends to spend a significant part of the capital expenditure in 2008 on new IT systems and integration of the systems currently possessed. The key projects will relate to implementing a new sales POS (Point of Sale) system, an ERP (Enterprise Resource Planning) system and a central reporting BI (Business Intelligence) system. The purpose of the new IT systems is to standardize the systems in all countries and achieve larger automation of the business processes. These changes increase the productivity and effectiveness of work in the whole group and enhance the efficiency of controlling and monitoring business. The integration and improvement of IT systems will form the basis for the further expansion and growth of AmRest.

The Management Board expects the long-term development to be financed mainly with own funds and additional external finance. In the next few years the Company expects to significantly increase debt financing.

Development of the proprietary brands, Rodeo Drive and freshpoint, was suspended at the end of 2007. Currently AmRest has 4 and 7 restaurants of these brands respectively. The further development of AmRest's proprietary brands will depend on the restaurants generating satisfactory results and the pace of achieving the critical mass by new markets and new brands (Burger King and Starbucks).

4. AMREST HOLDINGS SE IN 2008

4.1. External and internal factors material for the development of the Company in 2008

In the opinion of Management Board of AmRest, factors which have a significant impact on the future development of the Company and its future results comprise:

a) external factors:

- competitiveness – in terms of price, quality of service, location and quality of food;
- demographic changes, trends in respect of the number of people using the restaurants and the type and number, as well as location of competitors' restaurants;
- changes in the law and regulations with a direct impact on the operation of restaurants and the people employed there;
- change in costs of rental of the real estate and related costs;
- change in prices of foodstuffs used to prepare meals and change in prices of packaging materials;
- changes in the overall economic condition of Poland, the Czech Republic, Hungary, Bulgaria, Russia, Serbia and the United States, consumer confidence, amount of disposable income and individual methods of spending money.

b) internal factors:

- acquiring and preparing human resources necessary to develop the existing and new restaurant networks;
- acquiring attractive locations;
- effective implementation of new restaurant networks and products;
- building an integrated IT system.

4.2. Basic risks and threats to which the Company is exposed

The Management Board of AmRest is responsible for the risk management system and internal control system as well as for the system of reviewing those systems in terms of operating effectiveness. The systems help in the identification and management of risks which could prevent AmRest from realizing its long-term goals. Nevertheless, the existence of the systems does not allow for the total elimination of the risk of fraud and illicit actions. The Management Board of AmRest reviewed, analyzed and ranked the risks to which the Company is exposed. The current basic risks and threats have been summarized in this section. AmRest reviews and enhances its risk management systems and internal control systems on a current basis.

a) Factors outside the Company's control

The risk is related to the impact of factors outside the Company's control on AmRest's development strategy which is based on opening new restaurants. The factors include: possibilities of finding and ensuring available and appropriate restaurant locations, possibilities of obtaining the permits required by appropriate authorities on time, possibility of delays in opening new restaurants.

b) Dependency on franchiser

AmRest manages KFC, Pizza Hut, Burger King and Applebee's restaurants as a franchisee, therefore, many factors and decisions in the course of the operations run by AmRest depends on restrictions or specifications enforced by the franchiser or on their consent.

The term of the franchise agreements relating to KFC, Pizza Hut and Burger King is 10 years. AmRest is entitled to an option to extend this period by a further 10 years, on condition that it meets the terms and conditions concluded in the franchise agreements and other requirements, including making an appropriate payment in respect of the extension of the term of the agreement. The term of the franchise agreements relating to the Applebee's brand is 20 years, with an option for extending it by a further 20 years – on similar conditions as for the remaining AmRest brands.

Irrespective of meeting the above terms and conditions, there is no guarantee that after the end of the term, the franchise agreement will be extended for a further period. In respect of KFC and Pizza Hut restaurants, the first period began in 2000, in respect of Burger King restaurants, the first period began in 2007 with the opening of the first restaurant of the brand. In respect of some of Applebee's restaurants, the first period began in 2000. In respect of the remaining Applebee's restaurants, the first period began in 2008.

c) Dependency on joint venture partners

AmRest will open Starbucks restaurants by establishing Joint Venture Companies in Poland, the Czech Republic and Hungary on partnership terms, under joint venture agreements. Therefore, some decisions under jointly run operations will depend on partners' consent.

The JV Agreements with Starbucks were concluded for a period of 15 years, with an option to extend them for a further 5 years after meeting specific terms and conditions. In the event that AmRest does not meet the obligation relating to opening and running a minimum number of stores, Starbucks Coffee International, Inc. will have the right to increase its share in the Joint Venture Companies by repurchasing shares of AmRest Polska at a price agreed by the parties on the basis of a valuation of the Joint Venture Companies.

d) Non-exclusivity

Franchise agreements relating to operating KFC, Pizza Hut, Burger King and Applebee's restaurants do not include provisions for awarding AmRest any exclusivity clauses in a given territory, protection or any other rights on the premises, area, or market surrounding AmRest restaurants. In practice, however, in connection with the scale of operations of AmRest (among other things, an extensive distribution network), the possibility of a competitive operator appearing (in respect of the brands currently operated by the Company), which could effectively compete with the AmRest Group restaurants is relatively limited.

In respect of Starbucks, joint venture companies will be the only entities entitled to develop and run Starbucks stores in Poland, the Czech Republic and Hungary, without exclusivity rights to some of the institutional locations.

e) Rental agreements and their extension

Almost all AmRest restaurants operate in rented facilities. Most of the rental agreements are long-term, and are usually concluded for a period of at least 10 years from the date of inception of the rental (on condition that all extension options are exercised, on specified terms and conditions, and without accounting for agreements which are periodically renewed, if they are not terminated by giving notice, and agreements for an unspecified period). Many rental agreements grant AmRest the right to extend the term of the agreement on condition that the Company abides by the terms and conditions of the rentals. Irrespective of the need to meet the terms and conditions, there is no guarantee that AmRest will be able to extend the periods of the rental agreements on terms and conditions satisfactory from the point of view of commercial practices. If there is no such possibility, the potential loss of significant restaurant locations may have an unfavourable impact on the operating results of AmRest and on its activities.

Moreover, in some circumstances, AmRest may take the decision to close a given restaurant and the termination of the respective rental agreement on cost-effective terms may prove impossible. Such situation may also have a negative impact on the Company’s operations and operating results. The closure of any restaurant depends on the consent of the franchiser, and it is uncertain whether such consent would be obtained.

In respect of Russian restaurants acquired by AmRest in July 2007, the average rental period is relatively shorter compared with AmRest restaurants in other countries. This is due to the specific nature of the market.

f) Risk related to the status of AmRest as a foreign entity

The issuer is a joint-stock company established on the basis of the Dutch law, so internal relations are also governed by Dutch law. Polish investors should be aware that the shareholders’ rights vested in the Shares are governed by Dutch laws and that there are many differences between the provisions of the Dutch law relating to companies and the Polish Commercial Companies Code. Lack of knowledge of the Dutch regulations may hamper exercising rights from Shares by Polish investors. Moreover, taking into consideration the Company’s registered office, the investors who intend to file claims against AmRest may encounter problems related to delivering pleadings and engaging in a dispute.

g) Risk related to consumption of food products

Consumer preferences may change in connection with doubts arising as to the nutritional value of chicken, which are the main component of KFC menu, or as a result of unfavourable information proliferated by the mass media relating to the quality of products, diseases caused by them and damage incurred as a result of using AmRest restaurants and restaurants of other franchisees of KFC, Pizza Hut, Burger King, Starbucks and Applebee's, and as a result of the government or a given market sector disclosing unfavourable data about the products served in AmRest restaurants and at other KFC, Pizza Hut, Burger King, Starbucks and Applebee's franchisees', health issues and issues relating to the manner of functioning of one or a larger number of restaurants operated by AmRest, and its competitors. The risk referred to above is limited by using the highest quality components in AmRest restaurants – from checked and renowned suppliers, abiding by stringent quality and hygiene standards and applying state of the art equipment and processes enabling total safety of the food.

h) Risk related to restrictions imposed by the lenders

In accordance with the loan agreements concluded with ABN Amro, the AmRest Group committed itself to abiding by certain restrictions in respect of drawing loans and borrowings, incurring capital expenditure, granting security and disposing of assets, as well as to maintaining specific values of financial ratios. It is possible that accepting the said commitments may significantly limit AmRest's operations in the future, and potentially refraining from meeting the commitments may lead to the need for the early repayment of loan tranches drawn which in turn may have a negative impact on the financial condition and results of AmRest.

i) Risk related to the development of new brands

In the first half of 2007, AmRest opened the first Burger King restaurant in Poland. In January 2008 AmRest Coffee opened the first Starbucks store in the Czech Republic. Moreover, since the 3rd quarter of 2008, the Company will consolidate the results of its Applebee's restaurants. As these are completely new concepts for AmRest, there is a risk related to demand for the products offered and their acceptance by consumers.

Additionally, in connection with the currently unsatisfactory results of the proprietary restaurant brands, Rodeo Drive and freshpoint, there is a risk of potential write-downs for asset impairment.

j) Risk related to opening restaurants in new countries

Restaurants opened or taken over in Bulgaria, Russia, Serbia, Hungary and the United States will be the first AmRest restaurants operating in a new geographical and political territory. This is connected with a risk of different consumer preferences, the risk of lack of good knowledge of the market, risk of legal restrictions resulting from local regulations and political country risk.

k) Currency risk

AmRest results are prone to currency risk related to transactions in currencies other than the currency in which the business operations are measured in particular Group companies. A detailed description of the risk can be found in Note 32.

l) Risk related to implementing new IT systems

Costs related to implementing new IT systems may in the short term have a negative impact on the Company's results. However, in the long term, the expected benefits will have a negative impact on the Group's profitability.

4.3. The Company's development directions and strategy

> AmRest's strategy is to achieve market dominance* through acquisitions & operating scalable ($50+ m in annual sales), highly profitable (20%+IRR) branded Quick Service i Casual Dining restaurant concepts. AmRest, through its corporate culture "Everything is possible!" (Wszystko Jest Możliwe!), delivers craveble taste and exceptional service at affordable prices.

* Dominance defined as clear sales leader in the country.

a) Central and Eastern Europe

AmRest assesses that in respect of the brands currently operated by the Company in Central and Eastern Europe, the current market potential on the markets on which it operates is several times higher than the currently held restaurant portfolio. Therefore, the Company plans to significantly accelerate its growth. Until the end of 2009, AmRest plans to triple its sales revenues in Central and Eastern Europe (compared with 2006). AmRest will realize its strategy by continuing to develop the existing brands in the countries in which it is present, increasing sales of existing restaurants, introducing new brands and further acquisitions in the region.

In the following years, in Central and Eastern Europe, AmRest plans to grow at a rate of ca. 30% per annum in terms of sales revenues. The planned accelerated growth and significantly increased number of new restaurants will put short-term pressure on the net profit margin, related to the increased financial costs (costs related to servicing debt) and the increased one-off costs of opening new restaurants (start-ups). Another material pillar of the Group's development will be the integration of, and improvement to, the IT systems by the end of 2008.

In 2008 the process of simplifying the holding structure will be continued. Smaller companies will be included in the structures of American Restaurants Sp. z o.o. or American Restaurants s.r.o.– the holding's largest companies. Restructuring of the structure is aimed at reducing the administrative expenses.

The Company intends to consistently continue actions aimed at increasing its value to the customer. By further enhancing customer service, offering tasty dishes prepared with fresh ingredients and launching new products, AmRest intends to increase customers’ awareness of its excellent value for money.

b) The United States

The acquisition of 80% of shares in AppleGrove, the operator of 104 Applebee’s restaurants in the USA, is another milestone in AmRest’s history. The transaction means the entry of AmRest on the largest restaurant market in the world and significant strengthening of the Company’s Casual Dining Restaurants arm.

The growth strategy on the American market assumes achieving sales of USD 1 billion within the next few years. Development in the USA will be realized mainly by consecutive acquisitions and consolidation within the Applebee’s brand. The following acquisitions will be executed in the regions contiguous to the areas where restaurants operated by AppleGrove are located. Further announced acquisitions will meet AmRest’s internal hurdle of 20% IRR.

Their purpose is further leverage of AppleGrove management’s wide experience in consolidation of Applebee’s business in US and using the potential of the Applebee’s brand – the largest casual dining chain in the world.

5. MANAGEMENT REPRESENTATIONS

5.1. Truth and fairness of the presented financial statements.

According to AmRest Holdings SE Management Board's best knowledge, the financial statements and comparable data presented in the semi-annual financial statements of the AmRest Group were prepared in accordance with the binding accounting principles and present in a true, fair and clear manner the financial position of the AmRest Group and its financial result. The semi-annual Directors Report included in this document reflects the actual development and achievements and the position of the AmRest Group, including a description of the basic risks and threats.

5.2. Appointment of the registered audit company.

The registered audit company – PricewaterhouseCoopers Sp. z o.o. – which has reviewed the semi-annual consolidated financial statements of the AmRest Group, was appointed in accordance with the provisions of the law. Both the registered audit company and the registered auditors who performed the review met the conditions necessary to issue an unbiased and independent report based on the review, in accordance with appropriate regulations.

Wrocław, 30 September 2008

Wojciech Mroczyński	Jacek Trybuchowski
AmRest Holdings SE	AmRest Holdings SE
Board Member	Board Member