# AmRest Holdings SE
# Consolidated Financial Statements
# as at and for the six months ended 30 June 2008

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## Consolidated Income Statement
## for the six months ended 30 June 2008 and for the twelve months ended 31 December 2007

| *in thousands of Polish zloty* | Note | 2008 | 2007 |
|---|---|---|---|
| Restaurant sales | 2 | 507 582 | 364 660 |
| Restaurant expenses: | 4 | | |
| Cost of food | | (171 086) | (121 324) |
| Direct marketing expenses | | (23 991) | (15 662) |
| Direct depreciation and amortization expenses | | (26 501) | (21 116) |
| Payroll and employee benefits | | (100 680) | (70 724) |
| Continuing franchise fees | | (29 989) | (21 463) |
| Occupancy and other operating expenses | | (88 554) | (61 627) |
| Total restaurant expenses | | (440 801) | (311 916) |
| **Gross profit on sales** | | 66 781 | 52 744 |
| General and administrative expenses (G&A) | 4 | (35 589) | (22 052) |
| Depreciation and amortization expenses (G&A) | 4 | (1 564) | (1 182) |
| Other operating income | 5 | 4 253 | 3 451 |
| (Loss)/gain on disposal of property, plant and equipment and intangibles | 9 | (771) | (482) |
| Impairment losses | 4 | (804) | (249) |
| **Operating profit** | | 32 306 | 32 230 |
| Finance income | 2,6 | 5 556 | 321 |
| Finance cost | 2,7 | (6 304) | (2 310) |
| Share of profit of associates | 2,29 | 491 | 482 |
| **Profit before tax** | 8 | 32 049 | 30 723 |
| Income tax expense | 2,8 | (9 244) | (5 364) |
| **Profit for the period** | | **22 805** | **25 359** |
| Attributable to: | | | |
| Minority interest | | (989) | 530 |
| Equity holders of the parent | | 23 794 | 24 829 |
| **Basic earnings per share in Polish zloty** | 27 | 1,68 | 1,84 |
| **Diluted earnings per share in Polish zloty** | 27 | 1,67 | 1,83 |

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

## Consolidated balance sheet
## as at 30 June 2008 and 31 December 2007

| *in thousands of Polish zloty* | Note | 2008 | 2007 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 9 | 301 978 | 272 663 |
| Goodwill | 11 | 170 066 | 142 475 |
| Other intangible assets | 10 | 16 022 | 13 955 |
| Investment in associates | 2,29 | 2 844 | 2 353 |
| Other non-current assets | 12 | 46 075 | 47 952 |
| Deferred tax asset | 8 | 9 974 | 12 279 |
| **Total non-current assets** | | 546 959 | 491 677 |
| Inventories | 13 | 9 691 | 11 594 |
| Trade and other receivables | 14 | 29 763 | 34 489 |
| Corporate income tax receivables | | 1 883 | 403 |
| Other current assets | 15 | 10 494 | 11 621 |
| Available for sale financial assets | 16 | 9 765 | - |
| Cash and cash equivalents | 16 | 35 583 | 46 873 |
| Assets held for sale | 17 | 5 673 | - |
| **Total current assets** | | 102 852 | 104 980 |
| **Total assets** | 2 | 649 811 | 596 657 |
| **Equity** | 18 | | |
| Share capital | | 545 | 544 |
| Reserves | | 320 202 | 320 532 |
| Accumulated deficit | | (10 353) | (58 917) |
| Profit for the period | | 23 794 | 48 564 |
| Translation reserve | | (44 436) | (21 576) |
| **Equity attributable to shareholders of the parent** | | 289 752 | 289 147 |
| **Minority interest** | | 5 162 | 4 316 |
| **Total equity** | | 294 914 | 293 463 |
| **Liabilities** | | | |
| Interest-bearing loans and borrowings | 19 | 160 088 | 124 146 |
| Finance lease liabilities | 24 | 4 096 | 4 160 |
| Employee benefits | 20 | 2 017 | 1 221 |
| Provisions | 21 | 4 608 | 5 887 |
| Deferred tax liabilities | 8 | 8 558 | 10 124 |
| Other non-current liabilities | 22 | 2 963 | 2 337 |
| **Total non-current liabilities** | | 182 330 | 147 875 |
| Interest-bearing loans and borrowings | 19 | 49 685 | 38 552 |
| Finance lease liabilities | 24 | 607 | 1 442 |
| Trade and other accounts payable | 23 | 116 257 | 111 527 |
| Income tax liabilities | | 2 710 | 3 798 |
| Derivative financial instruments | 32 | 3 308 | - |
| **Total current liabilities** | | 172 567 | 155 319 |
| **Total liabilities** | 2 | 354 897 | 303 194 |
| **Total equity and liabilities** | | 649 811 | 596 657 |

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

## Consolidated statement of cash flows
## for the six months ended 30 June 2008 and 2007

| *in thousands of Polish zloty* | Note | 2008 | 2007 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 32 049 | 30 723 |
| Adjustments for: | | | |
| Share of profit of associates | 29 | (491) | (482) |
| Amortization | 10 | 2 048 | 3 164 |
| Depreciation | 9 | 26 017 | 19 134 |
| Interest expense, net | 6,7 | 4 780 | 1 094 |
| Foreign exchange gain, net | 6,7 | (4 291) | 497 |
| Loss/(gain) on disposal of property, plant, equipment and intangibles | 9 | 771 | 482 |
| Impairment of assets | 4 | 788 | 235 |
| Equity–settled share based payments expenses | 20 | 742 | 502 |
| Working capital changes (excluding the effect on translation differences): | | | |
| Change in receivables | | 3 133 | 1 067 |
| Change in inventories | | 1 821 | (537) |
| Change in other assets | | 4 865 | (1 271) |
| Change in payables and other liabilities | | (17 720) | (4) |
| Change in other provisions and employee benefits | | 796 | (3 869) |
| Income taxes paid | | (8 909) | (3 684) |
| Interest paid | | (4 780) | (989) |
| Other | | (2 369) | 1 102 |
| **Net cash provided by operating activities** | | 39 250 | 47 164 |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries and restaurants, net of cash acquired | 3 | (19 296) | (1 900) |
| Proceeds from the sale of property, plant and equipment and intangible assets | 9 | 2 192 | 4 581 |
| Proceeds from the sale of assets held for sale | 17 | - | 4 000 |
| Proceeds from held-to-maturity debt securities | | - | 9 984 |
| Acquisition of property, plant and equipment | 9 | (64 968) | (44 230) |
| Acquisition of intangible assets | 10 | (4 430) | (3 972) |
| Acquisition of available for sale financial assets | 16 | (8 708) | - |
| **Net cash used in investing activities** | | (95 210) | (31 537) |
| **Cash flows from financing activities** | | | - |
| Proceeds from issuance of shares | | 534 | - |
| Proceeds from borrowings | | 67 000 | - |
| Repayment of borrowings | | (22 916) | (918) |
| Repayment of finance lease | | (899) | (230) |
| **Net cash provided by/(used in) financing activities** | | 43 719 | (1 148) |
| **Net change in cash and cash equivalents** | | (12 241) | 14 479 |
| **Cash and cash equivalents, beginning of period** | | 46 873 | 25 241 |
| **Effect of foreign exchange rate movements** | | 951 | (652) |
| **Cash and cash equivalents, end of period** | | 35 583 | 39 068 |

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

## Consolidated statement of changes in equity
## for the six months ended 30 June and 2007

| *in thousands of Polish zloty* | Attributable to equity holders of the Company | | | | | | | | Minority Interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share Capital (Note 18)** | Share premium | Share options (Note 20) | Other reserves (Note 18) | **Total Reserves** | **Retained earnings** | **Translation reserve (Note 18)** | **Total** | | |
| **As at 01.01.2007** | **519** | 210 302 | 2 644 | 6 191 | **219 137** | **(56 928)** | **(4 943)** | **157 785** | **79** | **157 864** |
| Employees share option scheme – value of employee services (Note 20) | - | - | 502 | - | **502** | - | - | **502** | - | **502** |
| Currency translation differences | - | - | - | - | - | - | **366** | **366** | - | **366** |
| Profit for the period | - | - | - | - | - | **24 829** | - | **24 829** | **530** | **25 359** |
| **As at 30.06.2007** | **519** | 210 302 | 3 146 | 6 191 | **219 639** | **(32 099)** | **(4 577)** | **183 482** | **609** | **184 091** |
| | | | | | | | | | | |
| **As at 01.01.2008** | **544** | 310 264 | 4 077 | 6 191 | **320 532** | **(10 353)** | **(21 576)** | **289 147** | **4 316** | **293 463** |
| Employees share option scheme – value of employee services (Note 20) | - | - | 742 | - | **742** | - | - | **742** | - | **742** |
| Employees share option scheme – exercise of options | | | (859) | | **(859)** | | | **(859)** | | **(859)** |
| Currency translation differences | | | - | | | | **(22 860)** | **(22 860)** | | **(22 860)** |
| Issue of shares (Note 18) | 1 | 1 409 | - | - | **1 409** | - | - | **1 410** | - | **1 410** |
| Fair value gains on assets available for sale (Note 16) | - | - | - | 1 057 | **1 057** | - | - | **1 057** | | **1 057** |
| Fair value losses on hedging instruments (Note 32) | - | - | - | (2 679) | **(2 679)** | - | - | **(2 679)** | | **(2 679)** |
| Increase of capital in subsidiaries | - | - | - | - | - | - | - | - | **1 835** | **1 835** |
| Profit for the period | - | - | - | - | - | **23 794** | - | **23 794** | **(989)** | **22 805** |
| **As at 30.06.2008** | **545** | 311 673 | 3 960 | 4 569 | **320 202** | **13 441** | **(44 436)** | **289 752** | **5 162** | **294 914** |

Total income and expense for the period (currency translation differences and profit for the period) attributable to equity holders amounted to PLN 934 TPLN (previous year: 25 195 TPLN) and attributable to the minority interest – (989) TPLN (previous year: 530 TPLN).

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

## 1 Group overview and significant accounting policies

### (a) Background

AmRest Holdings SE (the "Company", initially as AmRest Holdings SE) 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".

On 19 September 2008 the change of a legal form to European Company (Societas Europaea) and a name to AmRest Holdings SE was registered by the Chamber of Commerce in, Amsterdam.

The Consolidated Financial Statements as at and for the six months ended 30 June 2008 comprise the data on the Company, its subsidiaries and on the Group's equity interest in associates.

The following Consolidated Financial Statements were authorised for issue by the Management Board on 30 September 2008.

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

Group's operations are not significantly seasonal.

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

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

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

In conjunction with the listing of the Company's shares on the WSE, YUM! sold all of its shares in the Company and is no longer a shareholder and a related party. Moreover, IRI also sold part of its shares as a result of the Company's IPO on the stock exchange. As at 31 December 2006 the Company's largest shareholder with a 37.5% voting rights and ownership interest remained IRI. In 2007 IRI sold further part of its shares. As at 30 June 2008 the Company's largest shareholder was WBK AIB Asset Management with a 19,70% voting rights and ownership interest. As at 30 June 2008 IRI, ARC and Metropolitan Properties International Sp. z o.o. are still related parties to the Group as controlling voting rights in ARC are held by the some members of the Group's supervisory board. For details please refer to the Note 30.

The majority of Group's operations is made under franchise agreements concluded with YUM! and YUM! Restaurants International Switzerland, Sarl, Burger King International GmbH oraz Starbucks Coffee International, Inc.

### Pizza Hut, KFC and RostiksKFC

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

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

### Burger King

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

The Group will open and operate Burger King restaurants in strict accordance with the agreed development schedule which includes the minimal numbers of openings in each development year.

### Starbucks

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

The parties resolved to establish three separate companies: AmRest Coffee Sp. z o.o., AmRest Coffee Sp. z o.o. and AmRest Kávézó Kft for each of the 3 countries Poland, Czech Republic and Hungary, respectively. The above companies are the only entities with the right to develop and operate Starbucks cafes in Poland, Czech Republic and Hungary during the term of the agreements with non-exclusive rights to certain institutional locations.

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

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

Key conditions of all abovementioned agreements have been described in Note 1 (f)

The table below presents a summary of the subsidiaries included within the Group at 30 June 2008:

| Name of company | City and country of incorporation | Principal activity | Parent company | Ownership interest and voting rights | Date of effective control |
|---|---|---|---|---|---|
| American Restaurants Sp. z o.o. | Wroclaw, Poland | Operating restaurants in Poland | AmRest Holdings SE | 100.00 % | December 2000 |
| American Restaurants s.r.o. | Prague, Czech Republic | Operating restaurants in the Czech Republic | AmRest Holdings SE | 100.00 % | December 2000 |
| Pizza Hut s.r.o. | Prague, Czech Republic | No current activities | American Restaurants s.r.o.<br>American Restaurants Sp. z o.o. | 99.973%<br>0.027% | December 2000 |
| American Restaurants Kft | Budapest, Hungary | Operating restaurants in Hungary | American Restaurants Sp. z o.o. | 100.00 % | June 2006 |
| Grifex I Sp. z o.o. in liquidation | Wroclaw, Poland | No current activities | American Restaurants Sp. z o.o. | 48.00 % | September 2003 |
| International Fast Food Polska Sp. z o.o. (in liquidation) | Wroclaw, Poland | No current activities | American Restaurants Sp. z o.o. | 100.00 % | January 2001 |
| Galeria Arka Sp. z o.o. | Warsaw, Poland | Operating restaurants in Poland | American Restaurants Sp. z o.o. | 100.00 % | March 2005 |
| AmRest Ukraina t.o.w. | Kiev, Ukraine | No current activities | American Restaurants Sp. z o.o. | 100.00 % | December 2005 |
| Doris 2006 Sp. z o.o. | Warsaw, Poland | Lessee of location where restaurants are operating | American Restaurants Sp. z o.o. | 100.00 % | October 2006 |
| AmRest Coffee Sp. z .o.o. | Wroclaw, Poland | Established to operate Starbucks stores in Poland | American Restaurants Sp. z o.o.<br>Starbucks Coffee International. Inc | 82.00 %<br>18.00 % | March 2007 |
| Bécsi út.13. Kft | Budapest, Hungary | Owner of the building with office space | American Restaurants Kft | 100.00 % | April 2007 |
| American Restaurants EOOD | Sofia Bulgaria | Established to operate restaurants in Bulgaria | American Restaurants Sp. z o.o. | 100.00 % | April 2007 |
| AmRest Coffee s.r.o. | Prague, Czech Republic | Established to operate Starbucks stores in Czech Republic | American Restaurants Sp. z o.o.<br>Starbucks Coffee International. Inc | 82.00 %<br>18.00 % | August 2007 |
| AmRest Acquisition Subsidiary Inc. | Delaware USA | Established to acquire OOO Pizza Nord | AmRest Holdings SE | 100.00 % | May 2007 |
| OOO AmRest | Petersburg, Russia | Operating Pizza Hut and KFC restaurants in Russia | AmRest Acquisition Subsidiary Inc.<br>American Restaurants Sp. z o.o. | 1,56 %<br>98.44 % | July 2007 |
| OOO KFC Nord | Moscow, Russia | No current activities | OOO AmRest | 100.00% | July 2007 |

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

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

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

The Group's associated companies at 30 June 2008 accounted for under the equity method are as follows:

| Name of company | City and country of incorporation | Principal activity | Parent company | Ownership interest and voting rights | Date of effective control |
|---|---|---|---|---|---|
| Worldwide Communication Services LLC | Nevada, USA | Marketing activity for the Group | American Restaurants Sp. z o.o. | 33.33 % | October 2003 |
| Synergy Marketing Partners Sp. z o.o. in liquidation | Warsaw, Poland | No current activities | Worldwide Communication Services LLC. | 26.66% | May 2002 |
| Red 8 Communications Group Sp. z o.o.* | Warsaw, Poland | Marketing activity for the Group | Worldwide Communication Services LLC | 17.33% | May 2002 |
| Synergy Marketing Partners s.r.o. in liquidation | Prague, Czech Republic | No current activities | Synergy Marketing Partners Sp. z o.o. | 24.00% | February 2005 |
| SCM Sp. z o.o. | Chotomow, Poland | Restaurant supply services provided for the Group | American Restaurants Sp. z o.o. | 45.00% | April 2005 |
| SCM s.r.o. | Prague, Czech Republic | Restaurant supply services provided for the Group | SCM Sp. z o.o. | 40.50% | March 2007 |

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

### (b) Statement of compliance with International Financial Reporting Standards

These interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union and issued by the International Accounting Standards Board. As at June 30, 2008 there are no differences with regards to policies adopted by the Group and the International Financial Reporting Standards. The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2007, except for the new accounting standards adopted as of January 1, 2008.

The following new standards, amendments to standards and interpretations are mandatory for financial period ending 30 June 2008:

- IFRIC 11, 'IFRS2 - Group and Treasury Share Transactions'. The interpretation does not have material impact on the Group's financial statements;
- IFRIC 12, 'Service Concession Arrangements'. The interpretation is not relevant for the Group and its financial statements;
- IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. The interpretation has no impact on the Group's operations and financial statements;

The following new standards, amendments to standards and interpretations have been issued but are not effective for the period ended 30 June 2008 and have not been early adopted:

- IFRS 8, 'Operating Segments', effective for annual periods beginning on or after January 1, 2009. IFRS replaces IAS 14 "Segment Reporting' and adopts a management approach to segment reporting. Management expects the new standard to have a significant impact on the Group's financial statements. Adoption of IFRS 8 will require redefining of segments, which will be identified on the basis on internal reports regularly reviewed by the Group's chief operating decision makers. Therefore, management expect identification of, apart from geographical segments, also segment based on key Group's brands;
- IAS 23 (Revised and amendment), 'Borrowing costs', effective for annual periods beginning on or after January 1, 2009. Management do not expect the amendments to have a significant impact on the Group's operations;
- IAS 1 (Revised) - Presentation of Financial Statements effective for annual periods beginning on or after 1 January 2009 r. The management is already assessing impact of revised standards on the Group's financial statement;
- IFRS 3 (Revised) – 'Business Combinations', effective for annual periods beginning on or after 1 July 2009 r. The Group will apply IFRS 3 (Revised) to transactions from 1 January 2010;
- IAS 27 (Revised), 'Consolidated and separate financial statements', effective for annual period beginning on or after 1 July 2009. The Group will apply IAS 27 (Revised) prospectively to transactions from 1 January 2010;

- IFRS 2 (Amendment) - 'Share-based payment', effective for annual periods beginning on or after 1 January 2009. The management is already assessing impact of amendment on Group's financial statements;
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation', effective for annual period beginning on or after 1 January 2009. The management is already assessing impact of amendments on Group's financial statements;
- IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements', effective for annual period beginning on or after 1 January 2009. The management is already assessing impact of amendment on Group's financial statements.
- Improvements to International Financial Reporting Standards – a collection of amendments to IFRSs (IFRS 1, IFRS 5, IFRS 7, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 32, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41), effective for annual periods beginning on or after 1 January 2009. The management is already assessing impact of amendments on Group's financial statements.
- IFRIC 13, 'Customer Loyalty Programmes", effective for annual periods beginning on or after July 1, 2008. Management is currently assessing the impact of IFRIC 13 on the Group's financial statements;
- IFRIC 15, 'Agreements for construction of real estates', effective for annual period beginning on or after 1 January 2009. Management is currently assessing the impact of IFRIC 15 on the Group's financial statements;
- IFRIC 16, 'Hedges of a net investment in a foreign operation', effective for annual periods beginning on or after October 1, 2008. The management is already assessing impact of IFRIC 16 on Group's financial statements.

### (c) Basis of preparation

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

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

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

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

Judgments made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 31.

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

### (d) Basis of consolidation

*Subsidiaries*

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

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

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

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

*Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

*Associates*

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

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

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

### (e) Foreign currencies

*Functional and presentation currency*

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

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

*Foreign currency transactions*

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

*Financial statements of foreign operations*

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

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

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

Foreign exchange difference arose on valuation of net investments are recognised directly in equity.

None of the foreign operations' currency is as at 30 June 2008 a currency of a hyperinflationary economy.

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

**KFC and Pizza Hut**

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

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

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

**Burger King**

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

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

- The franchisee must pay monthly continuing advertising and sales promotion fees equal to 5% of the gross sales of the Burger King restaurant operated by franchisee.
- During the 2 years after the first opening of a Burger King restaurant by the Group, BKE shall contribute an amount of 2.5% of the calendar monthly gross sales of all Burger King restaurants operated by the Group to the advertising and sales promotion fund mentioned in the franchise agreement. During the third year after the first opening of a Burger King restaurant by the Group, BKE shall contribute an amount of 2% of the calendar monthly gross sales of all Burger King restaurants operated by the Group to the advertising and sales promotion fund. This contribution is a part of advertising and sales promotion fees described in a previous point.
- During the initial 5 years term the initial franchise fee payable by the Group shall be 25 TUSD for each Burger King restaurant with a franchise agreement providing for a term of 10 years (plus a further renewal franchise fee of 25 TUSD in case of a 10 years renewal of the franchise agreement at the Group's option). The initial franchise fee shall be reduced by 50% for the development of each Burger King restaurant which exceeds the number of Burger King restaurants to be developed and opened by the Group according to the development schedule.

**Starbucks**

The key fees and costs to be borne by the Group relating to agreements with Starbucks Coffee International , Inc. (Note 1(a)) are as follows:

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

### (g) Property, plant and equipment

*Owned assets*

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

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

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

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

*Restaurant development assets*

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

*Leased assets*

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

*Subsequent costs*

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

*Depreciation*

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

The estimated useful lives are as follows:

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

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

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

### (h) Intangible assets

*Computer software*

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

*Favourable leases*

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

*Trademark*

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

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

See accounting policy (f) above.

*Other intangible assets*

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

*Amortization*

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

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

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

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

### (i) Goodwill

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

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

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

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

### j) Financial assets

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

*Available-for-sale financial assets*

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

*Financial assets at fair value profit or loss*

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

*Held-to-maturity financial assets*

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

*Loans and receivables*

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

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

### (k) Trade and other receivables

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

### (l) Inventories

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

### (m) Cash and cash equivalents

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

### (n) Impairment

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

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

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific

to the asset. For an asset which does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In such cases as cash generating units the Group recognises separate restaurants.

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

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

*Reversals of impairment*

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

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

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

### (o) Interest bearing loans and borrowings

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

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

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

### (p) Share capital

Ordinary shares are classified as equity.

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

### (q) Employee benefits

*Share-based compensation*

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

*Long-term service benefits*

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

*Pension accounting*

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

### (r) Provisions

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

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

*Site restoration*

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

*Onerous contracts*

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

### (s) Trade and other payables

They are recognised initially at fair value and subsequently measured at amortised cost.

### (t) Revenue recognition

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

### (u) Operating lease, occupancy cost

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

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

### (v) Income tax

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

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

Deferred tax is provided in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, the deferred tax is not accounted for if it arises 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 and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge);
- hedges of a net investment in a foreign operation (net investment hedge).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other operating income' or 'other operating expenses'. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in the income statement within 'finance costs'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other operating income' or 'other operating expenses'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognised immediately in the income statement within 'other operating income' or 'other operating expenses'.

### (x) Segment reporting

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

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

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

### (z) Business combinations involving entities under common control

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

## 2 Segment reporting

*Geographical segments*

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

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

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

| | ***Poland*** | ***Czech Republic*** | ***Russia*** | ***Unallocated*** | ***Total*** |
|---|---|---|---|---|---|
| 2008 | | | | | |
| Revenue from external customers | 320 805 | 100 665 | 60 554 | 25 558 | 507 582 |
| Inter-segment revenue | | | | | |
| | | | | | |
| Operating profit | 32 885 | 1 748 | 3 249 | (5 576) | 32 306 |
| Finance income | | | | | 5 566 |
| Finance cost | | | | | (6 304) |
| Share of profit of associates (Note 29) | 491 | - | - | - | 491 |
| Income tax | | | | | (9 244) |
| Profit for the period | | | | | 22 805 |
| | | | | | |
| Segment assets | 231 121 | 116 455 | 218 770 | 80 621 | 646 967 |
| Investments in associates (Note 29) | 2 844 | - | - | - | 2 844 |
| Total assets | | | | | 649 811 |
| | | | | | |
| Segment liabilities | 31 079 | 20 043 | 31 606 | | 82 728 |
| Unallocated liabilities | | | | 272 169 | 272 169 |
| Total liabilities | | | | | 354 897 |
| | | | | | |
| Pension, health care, sickness fund state contributions (Note 20) | 9 695 | 5 278 | 441 | 1 300 | 16 714 |
| | | | | | |
| Depreciation (Note 9) | 14 806 | 6 406 | 3 102 | 1 703 | 26 017 |
| Amortization (Note 10) | 1 335 | 368 | 328 | 17 | 2 048 |
| Capital investments (Note 9, 10, 11) | 26 933 | 17 739 | 45 978 | 16 255 | 106 905 |
| Impairment of fixed assets (Note 4, 9) | 293 | 495 | - | - | 788 |
| Impairment of assets held for sale | - | - | - | - | - |
| Impairment of inventories | - | - | - | - | - |
| Impairment of trade receivables (Note 4) | 16 | - | - | - | 16 |

## AmRest Holdings SE

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

| | *Poland* | *Czech Republic* | *Russia* | *Unallocated* | *Total* |
|---|---|---|---|---|---|
| 2007 | | | | | |
| Revenue from external customers | 250 021 | 91 915 | - | 22 724 | 364 660 |
| Inter-segment revenue | - | - | - | - | - |
| | | | | | |
| Operating profit/segment result | 22 778 | 10 304 | - | (852) | 32 230 |
| Finance income | | | | | 321 |
| Finance cost | | | | | (2 310) |
| Share of profit of associates (Not 29) | 482 | - | - | - | 482 |
| Income tax | | | | | (5 364) |
| Profit for the period | | | | | 25 359 |
| | | | | | |
| Segment assets | 193 826 | 121 860 | 210 422 | 68 196 | 594 301 |
| Investments in associates (Note 29) | 2 353 | - | - | - | 2 353 |
| Total assets | | | | | 596 657 |
| | | | | | |
| Segment liabilities | 72 932 | 24 793 | 49 700 | - | 147 425 |
| Unallocated liabilities | - | - | - | 155 769 | 155 769 |
| Total liabilities | | | | | 303 194 |
| | | | | | |
| Pension, health care, sickness fund state contributions (Note 20) | 16 783 | 11 550 | 2 604 | 354 | 31 291 |
| | | | | | |
| Depreciation (Note 9) | 13 428 | 4 898 | - | 808 | 19 134 |
| Amortization (Note 10) | 2 575 | 328 | - | 261 | 3 164 |
| Capital investments (Note 9, 10, 11) | 27 071 | 6 534 | - | 15 547 | 49 152 |
| Impairment of fixed assets (Note 4, 9) | - | - | - | 235 | 235 |
| Impairment of assets held for sale | - | - | - | - | - |
| Impairment of inventories | - | - | - | - | - |
| Impairment of trade receivables (Note 4) | 14 | - | - | - | 14 |

Capital investment comprises of additions of property, plant and equipment (Note 9), additions of intangible assets (Note 10) and additions of goodwill (Note 11).

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

## 3 Establishment and acquisition of subsidiaries and associates

***Entering the Russian restaurant market***

*Description*

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

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

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

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

On 23 June 2008 Michael Tseytin become a member of the Supervisory Board (related party).

*Purchase price allocation*

The purchase price allocation process has been already finalized. Details of fair values of net assets acquired, goodwill and purchase price as at the date of acquisition are as follows:

| | **Carrying amounts** | **Fair value and other adjustments** | **Provisional fair values** |
|---|---|---|---|
| Cash and cash equivalents | 962 | - | 962 |
| Property, plant and equipment | 18 543 | 14 509 | 33 052 |
| Intangible assets | 209 | 1 479 | 1 688 |
| Inventories | 1 595 | (130) | 1 465 |
| Trade and other receivables | 7 007 | (5 253) | 1 754 |
| Other current assets | 2 459 | (2 421) | 38 |
| Other non-current assets | 3 930 | 31 822 | 35 752 |
| Trade, other payables, provisions | (34 193) | (18 366) | (52 559 |
| Net assets acquired | 512 | 21 640 | 22 152 |
| Goodwill (Note 11) | | | 128 756 |
| **Total purchase consideration** | | | **150 908** |

| | |
|---|---|
| Satisfied in cash | 70 332 |
| Satisfied in shares | 99 987 |
| Incremental costs - due diligence | 784 |
| Adjustment to the initial purchase price | (20 195) |
| **Total purchase consideration** | **150 908** |
| | |
| Cash paid on acquisition | 70 332 |
| Net cash and cash equivalents in subsidiary acquired | (962) |
| | **69 370** |

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

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

*Partial settlement in own shares*

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

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

*Subsequent adjustments to the purchase consideration*

The purchase consideration is contingent as it is based on OOO AmRest's Earnings Before Interests, Taxes, Depreciation and Amortisation (EBITDA) for the period from 2 July 2007 till 30 June 2008 and final amount of liabilities assumed. As at 30 June 2008 the management estimated the purchase price correction at 20 195 TPLN from the initial amount of 170 319 TPLN to the amount of 150 124 TPLN. The best estimation should be however still treated as contingent as may be changed as a final result of negotiations with the seller. As at 30 June 2008 the receivable from the seller amounted to PLN 15 455 thousand (Note 14).

*Security*

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

*Goodwill*

The provisional goodwill relates mainly to benefits of getting access to the Russian restaurant market and its customers. Due to the characteristic of the Group's restaurant operations, it does not hold a register of its customers which are not bound by any contract and are not individually identified. Restaurants in Russia operate in accordance with franchise agreements similar to agreements concluded with restaurants in Poland, Hungary and the Czech Republic.

The management believes that franchise agreements concluded by OOO Pizza Nord are based on market conditions therefore they were not fair valued as intangible assets separately from goodwill. The smallest cash generating unit of the acquired business is each individual restaurant. However goodwill was allocated to all Group's Russian restaurants as is monitored for internal management purposes on country basis and cannot be allocated on a non-arbitrary basis to individual restaurants. Goodwill will be tested for impairment for the first time by the end of 2008.

*Financial impact of the acquiisition*

The purchase price allocation process has been already completed. As a result, the provisional fair values of acquired assets and assumed liabilities has been corrected and annual consolidated financial statements prepared as at 31 December 2007 restated in the following way:

| *in thousands of Polish zloty* | **31.12.2007 - before adjustments** | **Adjustments** | **31.12.2007 - after adjustments** |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 263 487 | 9 176 | 272 663 |
| Goodwill | 155 353 | (12 878) | 142 475 |
| Other intangible assets | 13 955 | - | 13 955 |
| Investment in associates | 2 353 | - | 2 353 |
| Other non-current assets | 47 952 | - | 47 952 |
| Deferred tax asset | 12 279 | | 12 279 |
| **Total non-current assets** | 495 379 | (3 702) | 491 677 |
| Inventories | 11 594 | - | 11 594 |
| Trade and other receivables | 16 733 | 17 756 | 34 489 |
| Corporate income tax receivables | 403 | - | 403 |
| Other current assets | 11 621 | - | 11 621 |
| Held-to-maturity assets | - | - | - |
| Cash and cash equivalents | 46 873 | - | 46 873 |
| Assets held for sale | - | - | - |
| **Total current assets** | 87 224 | 17 756 | 104 980 |
| **Total assets** | 582 603 | 14 054 | 596 657 |
| **Equity** | | | |
| Share capital | 544 | - | 544 |
| Reserves | 320 532 | - | 320 532 |
| Accumulated deficit | (58 917) | - | (58 917) |
| Profit for the period | 48 402 | 162 | 48 564 |
| Translation reserve | (23 454) | 1 878 | (21 576) |
| **Equity attributable to shareholders of the parent** | 287 107 | 2 040 | 289 147 |
| **Minority interest** | 4 316 | - | 4 316 |
| **Total equity** | 291 423 | 2 040 | 293 463 |
| **Liabilities** | | | |
| Interest-bearing loans and borrowings | 124 146 | - | 124 146 |
| Finance lease liabilities | 4 160 | - | 4 160 |
| Employee benefits | 1 221 | - | 1 221 |
| Provisions | 2 820 | 3 067 | 5 887 |
| Deferred tax liabilities | 2 216 | 7 908 | 10 124 |
| Other non-current liabilities | 1 275 | 1 062 | 2 337 |
| **Total non-current liabilities** | 135 838 | 12 037 | 147 875 |
| Interest-bearing loans and borrowings | 38 552 | - | 38 552 |
| Finance lease liabilities | 1 442 | - | 1 442 |
| Trade and other accounts payable | 111 550 | (23) | 111 527 |
| Income tax liabilities | 3 798 | - | 3 798 |
| Derivative financial instruments | - | - | - |
| **Total current liabilities** | 155 342 | (23) | 155 319 |
| **Total liabilities** | 291 180 | 12 014 | 303 194 |
| **Total equity and liabilities** | 582 603 | 14 054 | 596 657 |

## AmRest Holdings SE

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

| *in thousands of Polish zloty* | **2007 - before adjustments** | **Adjustments** | **2007 - after adjustments** |
|---|---|---|---|
| Restaurant sales | 853 355 | - | 853 355 |
| Restaurant expenses: | | | |
| Cost of food | (284 332) | - | (284 332) |
| Direct marketing expenses | (38 991) | - | (38 991) |
| Direct depreciation and amortization expenses | (49 388) | 435 | (48 953) |
| Payroll and employee benefits | (163 017) | - | (163 017) |
| Continuing franchise fees | (50 244) | - | (50 244) |
| Occupancy and other operating expenses | (148 486) | - | (148 486) |
| Total restaurant expenses | (734 458) | 435 | (734 023 ) |
| **Gross profit on sales** | 118 897 | 435 | 119 332 |
| General and administrative expenses (G&A) | (54 587) | 105 | (54 482) |
| Depreciation and amortization expenses (G&A) | (2 809) | - | (2 809) |
| Other operating income | 8 441 | 25 | 8 466 |
| (Loss)/gain on disposal of property, plant and equipment and intangibles | (1 155) | - | (1 155) |
| Impairment losses | (1 708) | - | (1 708) |
| **Operating profit** | 67 079 | 565 | 67 644 |
| Finance income | 3 682 | - | 3 682 |
| Finance cost | (7 963) | (1) | (7 964) |
| Share of profit of associates | 1 132 | - | 1 132 |
| **Profit before tax** | 63 930 | 564 | 64 494 |
| Income tax expense | (15 237) | (402) | (15 639) |
| **Profit for the period** | **48 693** | **162** | **48 855** |
| Attributable to: | | | |
| Minority interest | 291 | - | 291 |
| Equity holders of the parent | 48 402 | 162 | 48 564 |
| **Basic earnings per share in Polish zloty** | 1,84 | - | 1,84 |
| **Diluted earnings per share in Polish zloty** | 1,83 | - | 1,83 |

***Zwiększenie udziału w rynku restauracji w Rosji poprzez nabycie 9 restauracji od OOO Tetra***

On 26 February 2008 the Group acquired from OOO Tetra 9 restaurants RostiksKFC. The total purchase consideration amounted to 26 235 TPLN (12 115 TUSD).

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

| | |
|---|---|
| Fixed assets | 1 089 |
| Goodwill (Nota 11) | 25 146 |
| | 26 235 |
| | |
| Satisfied in cash | 15 863 |
| Not satisfied - liabiltiy (Note 23) | 10 372 |
| Total purchase consideration | 26 235 |

There were no significant additional cost related to the transaction.

***Zwiększenie udziału w rynku restauracji w Rosji poprzez nabycie 9 restauracji od OOO Fast Food Restaurants Group***

On 30 March 2008 the Group acquired from OOO fast Food Restaurants Group 5 restaurants RostiksKFC. The total purchase consideration amounted to 13 197 TPLN (6 156 TUSD).

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

| | |
|---|---|
| Fixed assets | 206 |
| Goodwill (Nota 11) | 12 891 |
| | 13 097 |
| | |
| Satisfied in cash | 3 433 |
| Not satisfied - liabiltiy (Note 23) | 9 664 |
| Total purchase consideration | 13 097 |

There were no significant additional cost related to the transaction.

For both abovementioned acquisitions, the provisional goodwill relates mainly to benefits of greater access to the Russian restaurant market and its customers. Due to the characteristic of the Group's restaurant operations, it does not hold a register of its customers which are not bound by any contract and are not individually identified. Restaurants in Russia operate in accordance with franchise agreements similar to agreements concluded with restaurants in Poland, Hungary and the Czech Republic.

The smallest cash generating unit of the acquired business is each individual restaurant. However goodwill arose on acquisition of above restaurants is allocated to all Russian segment. The goodwill is monitored for internal management purposes on country basis and cannot be allocated on a non-arbitrary basis to individual restaurants. Goodwill will be tested for impairment for the first time by the end of 2008.

## 4 Operating expenses

Operating expenses are as follows:

| | 06'2008 | 06'2007 |
|---|---|---|
| Depreciation (Note 9) | 26 017 | 19 134 |
| Amortisation (Note 10) | 2 048 | 3 164 |
| Food and materials | 180 949 | 128 631 |
| Utilities | 17 397 | 12 568 |
| External services | 29 082 | 22 391 |
| Payroll | 99 479 | 67 522 |
| Social security and other employee benefits | 22 556 | 15 372 |
| Operating leases (occupancy costs) (Note 25) | 41 807 | 25 125 |
| Marketing expenses | 23 991 | 15 662 |
| Continuing franchise fees | 29 989 | 21 463 |
| Insurance | 538 | 382 |
| Business travel | 2 141 | 1 572 |
| Onerous contracts | 30 | 515 |
| Other | 1 930 | 1 649 |
| | 477 954 | 335 150 |
| | | |
| Total restaurant expenses | 440 801 | 311 916 |
| Depreciation and amortisation expenses (G&A) | 1 564 | 1 182 |
| Other general and administrative expenses | 35 589 | 22 052 |
| | 477 954 | 335 150 |

Impairment costs are as follows:

| | | |
|---|---|---|
| Impairment of inventory (Note 2, 13) | - | - |
| Impairment of receivables (Note 2, 32) | 16 | 14 |
| Total impairment of current assets | 16 | 14 |
| | | |
| Impairment of property, plant and equipment (Note 2, 9) | 788 | 235 |
| | | |
| Total impairments | 804 | 249 |

## 5 Other operating income

| | 06'2008 | 06'2007 |
|---|---|---|
| Management fee | 102 | 63 |
| Sublease income (Note 25) | 1 027 | 884 |
| Marketing income | 2 145 | 1 282 |
| Other operating income | 979 | 1 222 |
| | 4 253 | 3 451 |

## 6 Finance income

| | 06'2008 | 06'2007 |
|---|---|---|
| Interest income | 1 265 | 321 |
| Foreign exchange gain, net | 4 291 | - |
| Other | - | - |
| | 5 556 | 321 |

## 7 Finance cost

| | 06'2008 | 06'2007 |
|---|---|---|
| Interest expense | (6 045) | (1 415) |
| Foreign exchange loss, net | - | (497) |
| Other | (259) | (398) |
| | (6 304) | (2 310) |

## 8 Taxation

| | 06'2008 | 06'2007 |
|---|---|---|
| Current tax | (8 505) | (4 880) |
| Change in deferred tax | (739) | (484) |
| Tax presented in profit and loss account | (9 244) | (5 364) |

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

| | Holland | Poland | Czech Republic | Hungary | Ukraine | Russia | Serbia | Bulgaria |
|---|---|---|---|---|---|---|---|---|
| 2008 | 29,1% | 19% | 24% | 16% | 25% | 24% | 10% | 15% |
| 2007 | 29,6% | 19% | 24% | 20% | 20% | 24% | 10% | 15% |

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

| | Holland | Poland | Czech Republic | Hungary | Ukraine | Russia | Serbia | Bulgaria |
|---|---|---|---|---|---|---|---|---|
| 2008 | 29,1% | 19% | 24% | 16% | 25% | 24% | 10% | 15% |
| 2007 | 29,6% | 19% | 24% | 20% | 20% | 24% | 10% | 15% |

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:

| | 06'2008 | 06'2007 |
|---|---|---|
| Profit before tax | 32 049 | 30 723 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | 5 682 | 6 201 |
| Permanent differences | 839 | 196 |
| Utilisation of previously unrecognised tax losses | - | (148) |
| Tax loss for current year for which no deferred tax assets was recognised | 3 954 | - |
| Deferred tax asset recognised in the period for previously unrecognised tax losses | 202 | 127 |
| Other differences | (1 433) | (1 012) |
| Tax presented in the profit and loss account | 9 244 | 5 364 |

The weighted average applicable tax rate was 20,3% (for the period ended 30 June 2007: 20,8%). The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

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

| | 31.12.2007 | 30.06.2007 |
|---|---|---|
| Deferred tax asset: | | |
| Deferred tax asset to be recovered after more than 12 months | 6 767 | 2 151 |
| Deferred tax asset to be recovered within 12 months | 3 207 | 10 128 |
| | 9 974 | 12 279 |
| Deferred tax liability: | | |
| Deferred tax liability to be recovered after more than 12 months | 6 193 | 7 324 |
| Deferred tax liability to be recovered within 12 months | 2 365 | 2 800 |
| | 8 558 | 10 124 |

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

| | Deferred tax asset | | Deferred tax liability | |
|---|---|---|---|---|
| | 30.06.2008 | 31.12.2007 | 30.06.2008 | 31.12.2007 |
| Tangible fixed assets (depreciation) | 2 692 | 3 714 | 1 992 | 2 216 |
| Receivables | 553 | 550 | 3 625 | 3 947 |
| Provisions and impairments | 1 946 | 6 255 | - | - |
| Tax losses | 1 508 | 1 513 | - | - |
| Other differences | 3 275 | 247 | 2 941 | 3 961 |
| | 9 974 | 12 279 | 8 558 | 10 124 |

Temporary differences before offsetting are as follows:

| | Deferred tax asset | | Deferred tax liability | |
|---|---|---|---|---|
| | 30.06.2008 | 31.12.2007 | 30.06.2008 | 31.12.2007 |
| Tangible fixed assets (depreciation) | 5 349 | 5 413 | 1 992 | 2 216 |
| Receivables | 553 | 550 | 3 625 | 3 947 |
| Provisions and impairments | 1 946 | 6 255 | - | - |
| Tax losses | 1 508 | 1 513 | - | - |
| Other differences | 3 275 | 2 137 | 1 856 | 8 513 |
| | 12 631 | 13 978 | 7 473 | 14 676 |

Tax losses carried forward as at 30 June 2008 are as follows:

| | |
|---|---|
| Poland | 3 557 |
| Czech Republic | 7 005 |
| Holland | 5 328 |
| Hungary | 4 372 |
| Ukraine | 1 973 |
| | 22 235 |

| Year of expiry | Tax losses total value | Tax losses included in deferred tax asset | Tax losses for which no deferred tax asset was recognised |
|---|---|---|---|
| 2008 | 3 532 | - | 3 532 |
| 2009 | 6 119 | - | 6 119 |
| 2010 | 2 112 | - | 2 112 |
| 2011 | 907 | - | 907 |
| 2012 | 713 | - | 713 |
| Without limits | 8 852 | 1 508 | 7 344 |
| | 22 235 | 1 508 | 20 727 |

At 30 June 2008, the Group has not recognized a deferred tax asset relating to all tax losses, due to uncertainty regarding their realization. This uncertainty results form the planned restructuring and lack of operating activities of few subsidiaries.

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

## 9 Property, plant and equipment

Movements in property, plant and equipment in 2008 and 2007 can be presented as follows:

| 2008 | Land | Buildings & restaurant development assets | Machinery & equipment | Vehicles | Other tangible assets | Assets under construction | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition cost** | | | | | | | |
| Balance at 1.1.2008 | 919 | 293 982 | 176 781 | 1 100 | 13 680 | 30 631 | 517 093 |
| Acquisitions (Note 3) | - | 204 | 1 091 | - | - | - | 1 295 |
| Additions | - | 12 145 | 12 456 | 53 | 2 290 | 36 184 | 63 128 |
| Disposals | - | (4 852) | (2 316) | (201) | (289) | (3 934) | (11 592) |
| Transfers | - | 22 707 | 2 850 | - | 1 269 | (26 826) | - |
| Transfers to assets held for sale (Note 17) | - | (8 991) | - | - | - | - | (8 991) |
| Exchange rate differences | 32 | 1 836 | 196 | (1) | 69 | (292) | 1 840 |
| Balance at 30.06.2008 | 951 | 317 031 | 191 058 | 951 | 17 019 | 35 763 | 562 772 |
| **Accumulated depreciation** | | | | | | | |
| Balance at 1.1.2008 | - | 143 795 | 91 421 | 757 | 5 628 | - | 241 601 |
| Additions | - | 12 092 | 11 853 | 76 | 1 996 | - | 26 017 |
| Disposals | - | (6 965) | (1 916) | (95) | (208) | - | (9 184) |
| Transfers to assets held for sale (Note 17) | - | (3 318) | - | - | - | - | (3 318) |
| Exchange rate differences | - | 845 | 1 296 | 5 | 142 | - | 2 288 |
| Balance at 30.06.2008 | - | 146 449 | 102 654 | 743 | 7 558 | - | 257 404 |
| **Impairment losses** | | | | | | | |
| Balance at 1.1.2008 | - | 2 622 | 8 | - | 7 | 192 | 2 829 |
| Additions (Note 2, 4) | - | 788 | - | - | - | - | 788 |
| Disposals | - | (220) | (4) | - | (7) | - | (231) |
| Exchange rate differences | - | 4 | 1 | - | - | - | 5 |
| Balance at 30.06.2008 | - | 3 194 | 5 | - | - | 192 | 3 391 |
| **Net book value 1.1.2008** | **919** | **147 565** | **85 352** | **343** | **8 045** | **30 439** | **272 663** |
| **Net book value 30.06.2008** | **951** | **167 388** | **88 399** | **208** | **9 461** | **35 571** | **301 978** |

| 2007 | Land | Buildings & restaurant development assets | Machinery & equipment | Vehicles | Other tangible assets | Assets under construction | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition cost** | | | | | | | |
| Balance at 1.1.2007 | 946 | 247 874 | 135 451 | 940 | 9 435 | 20 883 | 415 529 |
| Acquisitions | - | 1 932 | - | - | 3 | - | 1 935 |
| Additions | - | 1 918 | 7 465 | - | 681 | 33 180 | 43 244 |
| Disposals | - | (7 382) | (4 814) | - | (378) | (2 944) | (15 518) |
| Transfers | - | 20 349 | 7 512 | - | 1 004 | (28 865) | - |
| Exchange rate differences | (49) | (3 007) | (2 506) | (18) | (145) | (467) | (6 192) |
| Balance at 30.06.2007 | 897 | 261 684 | 143 108 | 922 | 10 600 | 21 787 | 438 998 |
| **Accumulated depreciation** | | | | | | | |
| Balance at 1.1.2007 | - | 126 525 | 85 688 | 518 | 4 314 | - | 217 045 |
| Additions | - | 11 026 | 7 432 | 82 | 594 | - | 19 134 |
| Disposals | - | (4 134) | (3 693) | - | (187) | - | (8 014) |
| Exchange rate differences | - | (1 107) | (1 429) | (9) | (109) | - | (2 654) |
| Balance at 30.06.2007 | - | 132 310 | 87 998 | 591 | 4 612 | - | 225 511 |
| **Impairment losses** | | | | | | | |
| Balance at 1.1.2007 | - | 5 541 | 14 | - | 33 | 1 191 | 6 779 |
| Additions (Note 2, 4) | - | 217 | 8 | - | 10 | - | 235 |
| Disposals | - | (1 361) | (19) | - | (31) | (1 009) | (2 420) |
| Exchange rate differences | - | (39) | (3) | - | (6) | (8) | (56) |
| Balance at 30.06.2007 | - | 4 358 | - | - | 6 | 174 | 4 538 |
| **Net book value 1.1.2007** | **946** | **115 808** | **49 749** | **422** | **5 088** | **19 692** | **191 705** |
| **Net book value 30.06.2007** | **897** | **125 016** | **55 110** | **331** | **5 982** | **21 613** | **208 949** |

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

| | Land | Buildings | Machinery & equipment | Vehicles | Other tangible assets | Total |
|---|---|---|---|---|---|---|
| Acquisition cost 31.12.2007 | 800 | 2 650 | 2 470 | - | 426 | 6 346 |
| Accumulated depreciation 31.12.2007 | - | 894 | 1 125 | - | 313 | 2 332 |
| Net book value 31.12.2007 | 800 | 1 756 | 1 345 | - | 113 | 4 014 |
| | | | | | | |
| Acquisition cost 30.06.2008 | 831 | 2 752 | 2 353 | - | 419 | 6 355 |
| Accumulated depreciation 30.06.2008 | - | 998 | 1 087 | - | 307 | 2 392 |
| Net book value 30.06.2008 | 831 | 1 754 | 1 266 | - | 112 | 3 963 |

A calculation of the loss on the disposal of fixed assets and a summary of impairment losses incurred on 30 June 2008 and 2007 is presented in the table below:

| | 2008 | 2007 |
|---|---|---|
| Proceeds from the sale of property, plant and equipment and intangible assets | 2 192 | 4 581 |
| Net book value of property, plant and equipment and intangible assets disposed | (2 963) | (5 202) |
| Loss on disposal of property, plant and equipment and intangibles | (771) | (621) |
| | | |
| Gain on disposal of assets held for sale (Note 17) | - | 139 |
| | | |
| Gain/(Loss) on disposal of property, plant and equipment, intangible assets and non-current assets held for sale | (771) | (482) |

According to loan agreement with ABN Amro Bank SE (Note 19) the property, plant and equipment of American Restaurants Sp. z o.o. and American Restaurants s.r.o. are used as collateral. The net book value of these assets amounted to 167 821 TPLN (31 December 2007: 181 085 TPLN).

Depreciation expense has been charged in ‘restaurant expenses’ – 25 025 TPLN (previous period: 18 183 TPLN) and in general and administrative (G&A) expenses – 992 TPLN (previous period: 951 TPLN).

## 10 Other intangible assets

Intangible assets movements in 2008 and 2007 can be presented as follows:

| 2007 | Trademarks | Favourable leases | Rights to use Pizza Hut , KFC and Burger King trademarks | Other intangible assets | Total |
|---|---|---|---|---|---|
| **Acquisition cost** | | | | | |
| Balance at 1.1.2008 | - | 9 465 | 19 775 | 11 409 | 40 649 |
| Additions | - | - | 2 231 | 2 214 | 4 445 |
| Disposals | - | - | (243) | (97) | (340) |
| Exchange rate differences | - | - | 8 | (23) | (15) |
| Balance at 30.06.2008 | - | 9 465 | 21 771 | 13 503 | 44 739 |
| **Accumulated amortisation** | | | | | |
| Balance at 1.1.2008 | - | 7 103 | 12 153 | 7 368 | 26 624 |
| Additions | - | 130 | 1 034 | 884 | 2 048 |
| Disposals | - | - | (86) | - | (86) |
| Exchange rate differences | - | - | 114 | 17 | 131 |
| Balance at 30.06.2008 | - | 7 233 | 13 215 | 8 269 | 28 717 |
| **Impairment losses** | | | | | |
| Balance at 1.1.2008 | - | - | 70 | | 70 |
| Additions | - | - | - | - | - |
| Disposals | - | - | (70) | | (70) |
| Exchange rate differences | - | - | - | - | - |
| Balance at 30.06.2008 | - | - | - | - | - |
| **Net book value 1.1.2008** | - | **2 362** | **7 552** | **4 041** | **13 955** |
| **Net book value 30.06.2008** | - | **2 232** | **8 556** | **5 234** | **16 022** |

| 2007 | Trademarks | Favourable leases | Rights to use Pizza Hut and KFC trademarks | Other intangible assets | Total |
|---|---|---|---|---|---|
| **Acquisition cost** | | | | | |
| Balance at 1.1.2007 | - | 9 465 | 16 315 | 9 058 | 34 838 |
| Additions | - | - | 1 063 | 2 910 | 3 973 |
| Disposals | - | - | (285) | (223) | (508) |
| Exchange rate differences | - | - | (343) | (47) | (390) |
| Balance at 30.06.2007 | - | 9 465 | 16 750 | 11 698 | 37 913 |
| **Accumulated amortisation** | | | | | |
| Balance at 1.1.2007 | - | 4 238 | 11 410 | 6 260 | 21 908 |
| Additions | - | 1 552 | 782 | 830 | 3 164 |
| Disposals | - | - | (223) | (167) | (390) |
| Exchange rate differences | - | - | (197) | (35) | (232) |
| Balance at 30.06.2007 | - | 5 790 | 11 772 | 6 888 | 24 450 |
| **Impairment losses** | | | | | |
| Balance at 1.1.2007 | - | - | 101 | | 101 |
| Additions | - | - | - | - | - |
| Disposals | - | - | - | | - |
| Exchange rate differences | - | - | - | - | - |
| Balance at 30.06.2007 | - | - | 101 | - | 101 |
| **Net book value 1.1.2007** | - | **5 227** | **4 804** | **2 798** | **12 829** |
| **Net book value 30.06.2007** | - | **3 675** | **4 877** | **4 810** | **13 362** |

Other intangible assets comprise mainly software.

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

Amortisation expense has been charged in ‘restaurant expenses’ – 1 476 TPLN (previous period: 2 933 TPLN) and in general and administrative (G&A) expenses - 572 TPLN (previous period: 231 TPLN).

## 11 Goodwill

Changes in goodwill can be presented as follows:

| | 6 months period ended 30 June 2008 | 6 months period ended 30 June 2007 |
|---|---|---|
| **Acquisition cost** | | |
| Balance at the beginning of period | 142 475 | 23 516 |
| Additions (Note 3) | 38 037 | - |
| Exchange rate differences | (10 446) | (294) |
| Balance at the end of period | 170 066 | 23 222 |
| **Impairment losses** | | |
| Balance at the beginning of period | - | - |
| Balance at the end of period | - | - |
| | - | - |
| **Net book value, beginning of period** | **142 475** | **23 516** |
| **Net book value, end of period** | **170 066** | **23 222** |

*Prior years acquisitions*

Goodwill in the initial amount of 18 666 TPLN (18 700 TPLN as at 30 June 2008 after the adjustment for positive foreign exchange differences of 34 TPLN) relates to the acquisition of American Restaurants Kft. (previous name: Kentucky System Kft.) in June 2006, whereas goodwill in the amount of 4 819 TPLN (5 016 TPLN as at 30 June 2008 after the adjustment for positive foreign exchange differences of 197 TPLN) relates to the acquisition of miklik's food s.r.o. in May 2005.

Goodwill in the amount of 128 756 TPLN (108 313 TPLN as at 30 June 2008 after adjustment by translation differences of 20 443 TPLN) arose on acquisition of OOO AmRest in July 2007 (Note 3).

*New acquisitions*

Goodwill in the amount of 25 146 TPLN relates to the acquisition of 9 restaurants RostiksKFC ( Note 3) .
Goodwill in the amount of 12 891 TPLN relates to the acquisition of 5 restaurants RostiksKFC ( Note 3) .

## 12 Other non-current assets

The other non-current assets balance at 30 June 2008 and 31 December 2007 are summarized in the table below:

| | 30.06.2008 | 31.12.2007 |
|---|---|---|
| Rent prepayments | 11 095 | 11 753 |
| Receivable from Michael Tseytin (acquisition of OOO Pizza Nord - operating lease contract) | 15 105 | 16 562 |
| Prepayment to Michael Tseytin (acquisition of OOO Pizza Nord - operating lease contract) | 8 225 | 10 600 |
| Rent deposits | 10 477 | 8 250 |
| Other | 1 173 | 787 |
| | 46 075 | 47 952 |

Receivable from the previous owner of OOO Pizza Nord in the amount of 15 105 TPLN is denominated in USD, matures within 7 years and its effective interest rate is 9.9%. The fair value of the receivable approximates the balance sheet value.

## 13 Inventories

Inventories at 30 June 2008 and 31 December 2007 comprise primarily of food and packaging materials used in restaurant operations. Inventories are stated net of provisions. The balance of provisions amounted to 795 TPLN as at 30 June 2008 and 31 December 2007. There were no changes of provisions for inventories in the 6 months period ended 30 June 2008 (Note 2, 4).

Inventories with a value of 6 925 TPLN (31 December 2007: 7 363 TPLN) are pledged as security for loan received from ABN Amro Bank Polska (Note 19).

## 14 Trade and other receivables

| | 30.06.2008 | 31.12.2007 |
|---|---|---|
| Trade receivables - third party | 11 823 | 12 628 |
| Trade receivables - related parties (Note 30) | 115 | 56 |
| Receivables from Michael Tseytin (acquisition of OOO AmRest) (Note 3) | 15 455 | 17 756 |
| Other taxes receivable | 4 832 | 6 041 |
| Other receivables | 1 139 | 1 595 |
| Provisions for receivables (Note 32) | (3 601) | (3 587) |
| | 29 763 | 34 489 |

### 15 Other current assets

| | 30.06.2008 | 31.12.2007 |
|---|---|---|
| Prepaid utilities | 699 | 2 866 |
| Prepaid rent | 6 488 | 4 760 |
| Prepaid insurance | 565 | 187 |
| Other | 2 742 | 3 808 |
| | 10 494 | 11 621 |

## 16 Cash and cash equivalents and available for sale financial assets

Cash and cash equivalents

The cash and cash equivalents balance at 30 June 2008 and 31 December 2007 are summarized in the table below:

| | 30.06.2008 | 31.12.2007 |
|---|---|---|
| Cash at bank | 23 832 | 36 182 |
| Cash in hand | 11 751 | 10 691 |
| | 35 583 | 46 873 |

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

Available for sale financial assets

As at 30 June 2008 the Group had 465 000 shares (5% of all shares) of Sfinks Polska S.A. to the total fair value of 9 765 TPLN. As Sfinks Polska S.A. is listed on the Warsaw Stock Exchange the fair value of shares has been determined based on their market quotation as at 30 June 2008.

In the 6 month period ended 30 June 2008 the Group recognised 1 057 TPLN of net gains on the valuation of shares in Sfinks Polska S.A., which were posted directly to equity.

### 17 Assets held for sale

In April 2008 the Group entered into preliminary agreements with unrelated entities for a sale of rights to 7 restaurant establishments. All establishments are located in Poland. All transactions, in the total amount of 16 100 TPLN , will be finalized by the end of 2008.

Therefore, the Group reclassified tangible fixed assets related to these establishments to assets held for sale as at 30 June 2008. As at 30 June 2008 the carrying amount of these assets was 5 673 TPLN.(Initial value: 8 991 TPLN, depreciation: 3 318 TPLN).

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

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

| | 06'2008 | 06'2007 |
|---|---|---|
| Revenue from disposals of assets held for sale | - | 4 000 |
| Net book value of assets held for sale | - | (3 861) |
| Profit from disposal of assets held for sale (note 9) | - | 139 |

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

## 18 Equity

*Share capital*

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

As of 30 June 2008, there are 14 186 356 shares issued and outstanding. All issued shares are fully paid. The authorized share capital consists of 15 000 000 shares.

On 9 May 2008 the new issue of 15 750 shares was registered. The issue related to the exercise of share option plan (Note 20). The nominal value of the issue was 1 TPLN. Share premium amounted to 1 409 TPLN.

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

*Other reserves*

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

*Translation Reserve*

The translation reserve comprises of all foreign exchange differences arising from the translation of the financial statements of foreign operations of the Group into PLN. Translation reserves as at 30 June 2008 relates to the following items:

| | 30.06.2008 |
|---|---|
| Translation differences on goodwill | 20 212 |
| Exchange differences arising on the eliminated upon consolidation group loans for which settlement is neither planned nor likely to occur in the foreseeable future, which form part of a net investment in a foreign operation | 18 359 |
| Translations of the results and financial position of foreign operations into presentation currency | 5 865 |
| | 44 436 |

## 19 Interest-bearing loans and borrowings

The table below presents interest-bearing loans and borrowings at 30 June 2008 and 31 December 2007

| **Non-current** | 30.06.2008 | 31.12.2007 |
|---|---|---|
| Bank loans | 160 088 | 124 146 |
| | 160 088 | 124 146 |

| **Current** | 30.06.2008 | 31.12.2007 |
|---|---|---|
| Bank loans | 49 685 | 38 552 |
| | 49 685 | 38 552 |

**Bank loans**

| Currency | Bank | Effective interest rate | 30.06.2008 | 31.12.2007 |
|---|---|---|---|---|
| W PLN | ABN Amro Bank NV | 3,50% | 138 300 | 77 000 |
| W CZK | ABN Amro Bank NV | 3,81% | 65 598 | 69 810 |
| W RUB | Raiffaisen Bank | 12,26% | 4 274 | 5 300 |
| W RUB | OAO FDC | 12,50% | 1 601 | 10 588 |
| | | | 209 773 | 162 698 |

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

According to the loan agreement with ABN Amro Bank SE, the Group is required to maintain certain financial ratios as specified in the agreement. These include net debt index, (the ratio of net debt to EBITDA), interest coverage and the balance sheet structure (the net fixed assets defined as total consolidated equity less net intangible assets and the net goodwill to total assets). The Group maintained all financial ratios described above as at 30 June 2008.

Refer to Note 9 and Note 13 for details regarding security pledged for the above loans.

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

Maturity of bank loans is presented below:

| | 30.06.2008 | 31.12.2007 |
|---|---|---|
| Less than 1 year | 49 685 | 38 552 |
| Between 1-2 years | 36 610 | 55 927 |
| Between 2-5 year | 106 378 | 64 552 |
| Over 5 years | 17 100 | 3 667 |
| | 209 773 | 162 698 |

The Group has the following undrawn borrowing facilities as at 30 June 2008 and 31 December 2007:

| | 30.06.2008 | 31.12.2007 |
|---|---|---|
| Floating rates | | |
| - expiring within one year | 14 489 | 14 489 |
| - expiring after one year | 140 000 | 57 000 |
| | 154 489 | 71 489 |

## 20 Employee benefits and share option plans

*Long term service employee benefits*

In accordance with the Company's employment regulations, certain employees have the right to jubilee payments for long-term employment in accordance with the Group's employment regulations. These employees receive a lump sum in local currency equivalent to USD 300 after the completion of 5 years of employment and a lump sum in local currency equivalent to USD 1 000 after the completion of 10 years of employment. The Group made an accrual of 2 017 TPLN for the jubilee obligation as of 30 June 2008 and 1 221 TPLN as of 31 December 2007. The accrual for the jubilee obligation related to the management amounted as at 30 June 2008 to 27 TPLN. Actuarial assumptions: discount rate: 5.5% and expected annual turnover: 40%.

*Share option plan 1*

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

*Share option plan 2*

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

The terms and conditions of the grants are as follows:

| Grant date | Number of options granted | Vesting conditions | Exercise price in PLN | Contractual life of options |
|---|---|---|---|---|
| Plan 1 | | | | |
| at 30 April 1999 | 75 250 | 5 years, graded, 20% per year | 6,4 | 10 years |
| at 30 April 2000 | 53 750 | 5 years, graded, 20% per year | 25,6 | 10 years |
| at 30 April 2001 | 76 300 | 5 years, graded, 20% per year | 25,6 | 10 years |
| at 30 April 2002 | 74 600 | 5 years, graded, 20% per year | 16,0 | 10 years |
| at 30 April 2003 | 55 100 | 5 years, graded, 20% per year | 16,0 | 10 years |
| at 30 April 2004 | 77 800 | 5 years, graded, 20% per year | 19,2 | 10 years |
| Total | 412 800 | | | |
| | | | | |
| Plan 2 | | | | |
| At 30 April 2005 | 79 300 | 5 years, graded, 20% per year | 24,0 | 10 years |
| At 30 April 2006 | 75 000 | 5 years, graded, 20% per year | 48,4 | 10 years |
| At 30 April 2007 | 89 500 | 5 years, graded, 20% per year | 96,5 | 10 years |
| At 30 April 2008 | 105 250 | 5 years, graded, 20% per year | 86,0 | 10 years |
| At 12 June 2008 | 20 000 | 5 years, graded, 20% per year | 72,5 | 10 years |
| Total | 369 050 | | | |

The number and weighted average exercise prices of share options for the 6 months period ended 30 June 2008 and 12 months ended 31 December 2007 are as follows:

| | 06'2008 | | | 12'2007 | | |
|---|---|---|---|---|---|---|
| | Weighted average exercise price | Number of options Plan 2 | Number of options Plan 1 | Weighted average exercise price | Number of options Plan 2 | Number of options Plan 1 |
| Outstanding at the beginning of the period | PLN 42,3 | 210 780 | 131 200 | PLN 26,9 | 151 400 | 182 200 |
| Exercised during the period | PLN 31,5 | (15 750) | - | - | - | (17 800) |
| Forfeited during the period | PLN 73,9 | (6 060) | - | PLN 29,4 | (29 770) | (33 200) |
| Granted during the period | PLN 83,8 | 125 250 | - | PLN 96,5 | 89 150 | - |
| Outstanding, end of the period | PLN 56,1 | 314 220 | 131 200 | PLN 42,3 | 210 780 | 131 200 |
| Exercisable at the end of the period | PLN 30,3 | 86 510 | 128 200 | PLN 22,2 | 45 770 | 123 380 |

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

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

| | Granted in the period from 1/1/2008 to 30/06/2008 | Granted in the period from 1/1/2007 to 31/12/2007 | Granted in the period from 1/1/2006 to 31/12/2006 | Granted in the period from 1/1/2005 to 31/12/2005 | | Granted till the end of 2004 |
|---|---|---|---|---|---|---|
| | Plan 2 | Plan 2 | Plan 2 | Plan 2 | Plan 1 | Plan 1 |
| Average fair value at grant date | PLN 29,81 | PLN 36,09 | PLN 15,5 | PLN 8,9 | PLN 6,8 | PLN 6,6 |
| Average share price at grant date/date of valuation | PLN 83,8 | PLN 96,5 | PLN 48,3 | PLN 25,7 | n/a | n/a |
| Average exercise price | PLN 83,8 | PLN 96,5 | PLN 48,3 | PLN 24,0 | PLN 18,6 | PLN 18,6 |
| Expected volatility (expressed as weighted average volatility used in the modelling under the trinomial tree model)* | 37% | 33% | 31% | 40% | 40% | 40% |
| Expected option life (expressed as weighted average life used in the modelling under the trinomial tree model | 8,9 years | 9,9 years | 9,9 years | 9,9 years | 7,0 years | 7,5 years |
| Expected dividends (commencing 2008) | 18,8% | 18,8% | 18,8% | 18,8% | 19,4% | 19,4% |
| Risk free interest rate (based on interbank interest rates) | 5,8% | 5,5% | 4,98% | 4,5% | 4,5% | 5,8% |

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

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

Expenses recognized related to share-based payments plans for the six months period ended 30 June 2008 and 30 June 2007 can be summarized as follows:

| | 2008 | 2007 |
|---|---|---|
| Value of employee services | 742 | 502 |
| | 742 | 502 |

*Pension, health care, sickness fund state contributions*

Expenses of contributions to the government for six months period ended 30 June 2008 and 30 June 2007 are as follows:

| | 2008 | 2007 |
|---|---|---|
| Pension, health care, sickness fund state contributions | 16 714 | 13 852 |

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

## 21 Provisions

The table below presents a roll forward of provisions:

| 30 June 2008 | 01.01.2008 | Additions | Used | Released | Translation reserve | 30.06.2008 |
|---|---|---|---|---|---|---|
| Onerous lease contracts | 5 190 | 30 | (1 251) | (83) | 25 | 3 911 |
| Provision for legal claims | 697 | - | - | - | - | 697 |
| | 5 887 | 30 | (1 251) | (83) | 25 | 4 608 |

| 30 June 2007 | 01.01.2007 | Additions | Used | Released | Translation reserve | 30.06.2007 |
|---|---|---|---|---|---|---|
| Onerous lease contracts | 3 322 | 515 | (947) | (661) | (44) | 2 185 |
| Provision for legal claims | 2 243 | - | (1 418) | (128) | - | 697 |
| | 5 565 | 515 | (2 365) | (789) | (44) | 2 882 |

*Provision for onerous contracts*

As at the balance sheet date the Group recognised provision for loss making lease contracts. The contracts are mainly related to locations, where the Group does not operate restaurants but subleases locations to other entities at unfavourable conditions. Provision was calculated using 10.9% discount rate. The increase of discount rate by 10.00% (from 10.9% to 12.0%) would result in a decrease of provision by 141 TPLN.

*Reserve for legal claims*

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

## 22 Other non-current liabilities

Other non-current liabilities comprise mainly non-current portion of deferred income from advertising services provided to one of the Group's suppliers (non-related party). For information on non-current portion please refer to Note 23. The Group has received in advance a cash remuneration of 817 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 1 211 TPLN and 1 172 TPLN at 30 June 2008 and 31 December 2007, respectively.

## 23 Trade and other accounts payable

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

| | 30.06.2008 | 31.12.2007 |
|---|---|---|
| Accounts payable to third parties: | 103 066 | 94 362 |
| Trade payables | 39 454 | 60 859 |
| Uninvited rent and deliveries for restaurants | 12 521 | 10 644 |
| Investments creditors – tangible fixed assets | 3 843 | - |
| Payables to employees | 9 483 | 7 518 |
| Social insurance liability | 5 321 | 4 566 |
| Other taxes payable | 4 328 | 4 127 |
| Prepayments received related to tangible fixed assets | 1 810 | - |
| Business combinations liability (Note 3) | 20 036 | - |
| Other accounts payable to third parties | 6 270 | 6 648 |
| Accounts payable to related parties (Note 30) | 173 | 1 120 |
| Accruals: | 11 973 | 14 622 |
| Bonuses to employees | 4 987 | 4 386 |
| Marketing services | - | 986 |
| Unused holidays | 5 573 | 5 688 |
| Professional services | 1 361 | 2 191 |
| Accrued acquisition costs (business combinations) | - | 849 |
| Other | 52 | 522 |
| Deferred income - current portion (Note 22) | 666 | 1 006 |
| Social Fund | 379 | 417 |
| | 116 257 | 111 527 |

## 24 Finance lease liabilities

Finance lease liability – present value of liability:

| | 30.06.2008 | 31.12.2007 |
|---|---|---|
| No later than 1 year | 607 | 1 442 |
| Later than 1 year, no later than 5 years | 1 245 | 1 342 |
| Later than 5 years | 2 851 | 2 818 |
| | 4 703 | 5 602 |

Finance lease liabilities – minimum lease payments:

| | 30.06.2008 | 31.12.2007 |
|---|---|---|
| No later than 1 year | 1 273 | 2 154 |
| Later than 1 year, no later than 5 years | 3 063 | 3 685 |
| Later than 5 years | 5 623 | 5 570 |
| Total minimum lease payments | 9 959 | 11 409 |
| Future finance charges on finance leases | (5 256) | (5 807) |
| Present value of finance lease liabilities | 4 703 | 5 602 |

## 25 Operating leases

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

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

| | 30.06.2008 | 31.12.2007 |
|---|---|---|
| No later than 1 year | 52 525 | 43 929 |
| Later than 1 year, no later than 5 years | 289 382 | 152 044 |
| Later than 5 years | 125 480 | 84 647 |
| Total minimum lease payments | 467 387 | 280 620 |

For numerous restaurants (mainly for those located in shopping malls) the rental fees are composed of a fixed fee and a fee contingent on the revenues of the restaurant. The contingent fee typically represents 2.5% to 9% of restaurant sales. Operating lease expenses are as follows (Note 4):

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Fixed part | Contingent part | Total | Fixed part | Contingent part | Total |
| Czech Republic | 7 087 | 2 223 | 9 310 | 6 347 | 1 103 | 7 450 |
| Hungary | 2 049 | 75 | 2 124 | 1 758 | 127 | 1 885 |
| Poland | 12 591 | 7 250 | 19 841 | 11 006 | 4 784 | 15 790 |
| Russia | 9 892 | - | 9 892 | - | - | - |
| Bulgaria | 426 | - | 426 | - | - | - |
| Serbia | 214 | - | 214 | - | - | - |
| | 32 259 | 9 548 | 41 807 | 19 111 | 6 014 | 25 125 |

The Group also is also a party of sub-operating leases. Revenues from such contracts as for six months period ended 30 June 2008 and 2007 are as follows (Note 5):

| | 2008 | 2007 |
|---|---|---|
| Russia | 97 | - |
| Czech Republic | 69 | 40 |
| Hungary | 21 | 27 |
| Poland | 840 | 817 |
| | 1 027 | 884 |

## 26 Loan security

Loans are secured by various means of pledge and mortgage on tangible fixed assets and on inventories – see Note 9 and 13.

## 27 Earnings per share

Basic and diluted earnings per ordinary share for six month period ended 30 June 2008 and 2007 are calculated as follows:

| | 23 794 | 24 829 |
|---|---|---|
| Net profit attributable to shareholders of the parent | 23 794 | 24 829 |
| Ordinary shares at 1 January | 14 170 606 | 13 500 000 |
| Effect of shares issued | 1 663 | - |
| Effect of stock options granted in 2005 | 59 000 | 50 626 |
| Effect of stock options granted in 2006 | 35 344 | 19 517 |
| Effect of stock options granted in 2007 | - | - |
| Effect of stock options granted in 2008 | - | - |
| Weighted average number of ordinary shares | 14 266 613 | 13 570 143 |
| Basic earnings per share | 1,68 | 1,84 |
| Diluted earnings per share | 1,67 | 1,83 |

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

## 28 Commitments and contingencies

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

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

## 29 Investments in associates

Changes in investments in associates can be presented as follows:

| | 30.06.2008 | 30.06.2007 | 31.12.2007 |
|---|---|---|---|
| At the beginning of the period | 2 353 | 1 221 | 1 221 |
| Acquisition of shares | - | - | - |
| Share of profit of associates | 491 | 482 | 1 132 |
| Exchange differences | - | - | - |
| At the end of the period | 2 844 | 1 703 | 2 353 |

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

| Name of associate | Country | Assets | Liabilities | Revenues | Profit/ (loss) | % of interest held |
|---|---|---|---|---|---|---|
| 31 June 2008 | | | | | | |
| Worldwide Communication Services LLC | USA | 145 | 79 | - | - | 33,33 |
| Synergy Marketing Partners Sp. z o.o ( in liquidation ) | Poland | 141 | 85 | - | (3) | 26,66 |
| Red 8 Communications Group Sp. z o.o. | Poland | 3 407 | 4 508 | 4 550 | (243) | 17,33 |
| Synergy Marketing Partners s.r.o. | Czech Republic | 21 | 0 | 168 | - | 24,00 |
| SCM Sp. z o.o | Poland | 5 457 | 441 | 3 941 | 1 128 | 45,00 |
| SCM s.r.o. | Czech Republic | 263 | 67 | 171 | 63 | 40,50 |

| Name of associate | Country | Assets | Liabilities | Revenues | Profit/ (loss) | % of interest held |
|---|---|---|---|---|---|---|
| 30 June 2007 | | | | | | |
| Worldwide Communication Services LLC | USA | 145 | 79 | - | (6) | 33,33 |
| Synergy Marketing Partners Sp. z o.o | Poland | 157 | 92 | 2 660 | 15 | 26,66 |
| Red 8 Communications Group Sp. z o.o. | Poland | 2 641 | 992 | 7 037 | 419 | 17,33 |
| Synergy Marketing Partners s.r.o. | Czech Republic | 22 | 1 | 168 | 11 | 24,00 |
| SCM Sp. z o.o | Poland | 3 344 | 285 | 2 557 | 842 | 45,00 |
| SCM s.r.o. | Czech Republic | 76 | - | 171 | 76 | 40,50 |

## 30 Related parties

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

| | 30.06.2008 | 31.12.2007 |
|---|---|---|
| Metropolitan Properties International Sp. z o.o. | 61 | 37 |
| American Retail Concepts (ARC) | 30 | |
| Associates | 24 | 19 |
| | 115 | 56 |

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

| | 30.06.2008 | 31.12.2007 |
|---|---|---|
| Metropolitan Properties International Sp. z o.o. | 125 | 271 |
| American Retail Concepts (ARC) | - | 524 |
| Associates | 48 | 325 |
| | 173 | 1 120 |

***Sales of goods and services:***

| | 6 months ended 30 June 2008 | 6 months ended 30 June 2007 |
|---|---|---|
| Metropolitan Properties International Sp. z o.o. | 32 | 70 |
| American Retail Concepts (ARC) | 147 | - |
| Associates | 59 | 21 |
| | 238 | 91 |

***Purchases of goods and services:***

| | 6 months ended 30 June 2008 | 6 months ended 30 June 2007 |
|---|---|---|
| Metropolitan Properties International Sp. z o.o. | 2 454 | 800 |
| American Retail Concepts (ARC) | 2 214 | 1 032 |
| Associates | 529 | 3 839 |
| | 5 197 | 5 671 |

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

As described in Note 1(a), ARC together with its subsidiary - IRI, are related parties as at 30 June 2008 and 2007. Metropolitan Properties International Sp. z o.o. and American Retail Systems Sp. z o.o. are the companies owned by Henry McGovern. On 14 March 2008 both companies merged into one entity (acquisition method) with Metropolitan Properties International Sp. z o.o. as a surviving entity.

ARC was founded by Donald M. Kendall, Sr., Donald M. Kendall, Jr., Christian R. Eisenbeiss and Henry J. McGovern. Donald M. Kendall, Sr., Donald M. Kendal and Henry J. McGovern served as Supervisory Board members of AmRest Holdings S.E. as at 30 June 2008.

The ownership structure of ARC as at 30 June 2008 is shown in the table below:

| | Percent Ownership |
|---|---|
| Donald M. Kendall, Sr. | 30,00% |
| Donald M, Kendall, Jr. | 18,25% |
| Christian R. Eisenbeiss | 28,36% |
| Henry J. McGovern | 22,49% |
| David A. Bobilya | 0,90% |

The Group also received management and consultancy services provided by ARC for the Czech and Polish operating entities. The major obligation is for ARC to provide management services including paying the salaries and certain other expenses of certain members of the Group's management team. These salaries and services are invoiced to the Group's subsidiaries monthly. The professional fees paid by the Company and its subsidiaries to ARC amounted to 2 214 TPLN and 1 032 TPLN for 6 months ended 30 June 2008 and 2007, respectively.

Starting from 27 April 2005, ARC assumed obligations for the settlement of stock option plan, related to Plan no. 1 ( Note 20).

Metropolitan Properties International Sp. z o.o. (after the merger with American Retail Systems Sp. z o.o.) conducts real estate operations. The Group leases seven restaurant properties from Metropolitan Properties International Sp. z o.o. at market rates consistent with the lease terms and conditions in its restaurant leases with third parties.

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

As at 30 June 2008 r. the Group recognised in its consolidated balance sheet prepayments for rent amounting to 9 580 TPLN made in 2005 on behalf of American Retail Systems Sp. z o.o. (Metropolitan Properties International Sp. z o.o. after the merger) in the connection with concluded lease contracts for 4 restaurants for ten-year period starting in 2007.

The rent and other costs incurred on behalf of Metropolitan Properties International Sp. z o.o. were 2 454 TPLN and 800 TPLN for six months ended 30 June 2008 and 2007, respectively.

The Group payables in respect of the above mentioned transactions amounted to 125 TPLN and 271 TPLN as at 30 June 2008 and at 31 December 2007, respectively.

***Associates***

*Worldwide Communication Services LLS*

Worldwide Communication Services LLS and its subsidiaries provided the Group with marketing services until the end of March 2007. Amounts billed to the Group for the first six months 2008 and 2007 amounted to 529 TPLN and 3 839 TPLN, respectively.

***Transactions with key management personnel***

Key management remuneration (members of the Management Board of AmRest Holdings S.E.) paid by American Retail Concepts and directly by the Group is as follows:

| | 6 month period ended 30 June 2008 | 6 month period ended 30 June 2007 |
|---|---|---|
| Management Board remuneration paid by American Retail Concepts | 940 | 1 461 |
| *Including additional benefits* | - | - |
| Management Board remuneration paid directly by the Group | 561 | 214 |
| *Including additional benefits* | - | - |
| Management Board remuneration, total | 1 501 | 1 675 |
| *Including additional benefits* | - | - |

Key personnel of the Group receive also remuneration from American Retail Concepts (apart from the management of the Company, subsequently recharged to the Group). Management remuneration paid by American Retail Concepts amounted to 1 274 TPLN and 550 TPLN for the six month period ended 30 June 2008 and 2007, respectively.

Key management participates also in share option programs (see Note 20). Share based payment expense which relates to key management amounted to 127 TPLN and 22 TPLN for the six month period ended 30 June 2008 and 2007, respectively.

| | 30 June 2008 | 30 June 2007 |
|---|---|---|
| Number of options granted | 156 500 | 131 000 |
| Number of options available | 115 450 | 102 800 |
| Fair value of options at the moment of grant | 2 254 894 PLN | 729 920 PLN |

There were no commitments to former employees as at 30 June 2008.

## 31 Critical accounting estimates and judgments

*Key sources of estimation and uncertainty*

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

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

*Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy presented in Note 1n. No impairment was recognised in relation to goodwill existing at 30 June 2008 and 31 December 2007. No significant risk of impairment of goodwill was identified as at 30 June 2008. The test for impairment will be performed as of 31 December 2008.

*Estimated depreciation rates*

The increase of average useful lives by 10% would result in a decrease of depreciation expense for the six months period ended 30 June 2008 by approximately 2 634 TPLN.

*Judgments*

The most critical judgments relate to lease classification – See Notes 24 and 25 and recognition of deferred tax asset on tax losses carry forward – Note 8.

## 32 Financial instruments

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

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

*Credit risk*

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents and receivables. The Group places its cash and cash equivalents in financial institutions with high credit ratings. There are no significant concentrations of credit risk with respect to trade and other receivables as sales are primarily made in cash or via major credit card. In the first six months of 2008 the Group created additional provision for receivables exposed to credit risk in the amount of 16 TPLN (Note 2, 4). Maximum amount exposed to credit risk is 67 229 TPLN, comprising of cash and cash equivalent, trade and other receivables.

The timing structure of receivables and bad debt allowances on 30 June 2008is as follows:

| | current | past due in days | | | | **Total** |
|---|---|---|---|---|---|---|
| | | up to 90 | 91 - 180 | 181 - 365 | over 365 | |
| Trade and other receivables | 22 446 | 1 432 | 2 646 | 309 | 6 531 | **33 364** |
| Bad debt allowance | - | - | - | - | (3 601) | **(3 601)** |
| | 22 446 | 1 432 | 2 646 | 309 | 2 930 | **29 763** |

The Group did not recognise impairment of past due trade and other receivables amounting to 7 317 TPLN because it expects that they will be recovered in a total amount.

*Interest rate risk*

The Group's interest-bearing borrowings typically bear floating interest rates (see Note 19). The exposure to interest rate cash flow risk is not hedged. The Group analyses current market situation regarding interest rates taking into consideration refinancing or renegotiating the terms of contracts. The impact on profit or loss is analysed on a quarterly basis.

If interest rates on borrowings denominated in CZK in the 6 months period ended 30 June 2008 had been 10% higher/lower, profit for the year would have been about 561 TPLN lower/higher.

*Foreign currency risk*

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

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

As at the 30 June 2008, Group's assets and liabilities are denominated mainly in the functional currencies of its subsidiaries. If the Czech crown had strengthened/weakened by additional 10% against the US dollar, profit for the period would have been 1 550 TPLN higher/lower. If the Russian rubel had strengthened/weakened by additional 10% against the US dollar, profit for the period would have been 117 TPLN higher/lower.

To minimize a currency risk on expected acquisition of Apple Grove Holdings LLC (Note 33), the Group entered into a USD forward contracts for the total amount of 55 MUSD and (25MUSD rate 2,1908 ; 30 MUSD rate 2,1733 ). The valuation of a hedging instrument as at 30 June 2008 resulted in decreasing of equity by 2 679 TPLN (including the effect of recognised deferred tax asset).

*Liquidity risk*

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

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

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

| | 06'2008 | | | 12'2007 | | |
|---|---|---|---|---|---|---|
| | Capital instalments | Interests and other costs | Total | Capital instalments | Interests and other costs | Total |
| Less than 1 year | 49 685 | 11 646 | 61 331 | 38 552 | 9 890 | 48 442 |
| Between 1 - 2 year | 36 610 | 9 469 | 46 079 | 55 927 | 13 226 | 69 153 |
| Between 2 - 5 year | 106 378 | 11 730 | 118 108 | 64 552 | 4 618 | 69 170 |
| Over 5 years | 17 100 | 163 | 17 263 | 3 667 | 70 | 3 737 |
| | 209 773 | 33 008 | 242 781 | 162 698 | 27 804 | 190 502 |

*Capital risk*

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total engaged capital. Net debt is calculated as total borrowings (including borrowings and payables) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 30 June 2008 and 31 December 2007 were as follows:

| | 06'2008 | 12'2007 |
|---|---|---|
| Bank loans total (Note 20) | 209 773 | 162 698 |
| Less: cash and cash equivalent (Note 16) | (35 583) | (46 873) |
| Net debt | 174 190 | 115 825 |
| Total equity | 294 914 | 293 463 |
| Capital involved | 469 104 | 409 288 |
| Gearing ratio | 37% | 28% |

The increase in the gearing ratio at 30 June 2008 resulted primarily from the increased capital expenditures.

## 33 Subsequent events

- On 4 July 2008 the Group signed letters of intent with Burger King Europe GmbH regarding three new markets: Czech Republic, Slovakia and Slovenia. Currently the Group has rights to open and operate Burger King restaurants in Poland and Bulgaria
- Entering the restaurant business in the USA:

  On 4 July 2008 AmRest Holdings SE set up a new entity - AmRest LLC, Delaware, USA. AmRest LLC was created to buy 80% of shares in Apple Grove Holdings LLC.

  On 9 July 2008 AmRest LLC acquired 80% of shares in Apple Grove Holdings, LLC, Delaware, USA from Grove Ownership Holding, LLC, Georgia, USA.

  The above mentioned transaction enabled Group to enter the American restaurant market through acquisition of 104 Applebee's® restaurants.

The purchase price allocation process is not finalized yet as the acquisition took place after balance sheet date and there were no sufficient time to perform all necessary valuations till the date the following Consolidated Financial Statements have been approved by the Management Board.

Details of provisional fair values of net assets acquired, goodwill and purchase price as of the date of acquisition are as follows.

| | |
|---|---|
| Cash and cash equivalents | 8 963 |
| Property, plant and equipment | 92 356 |
| Intangible assets | 10 794 |
| Inventories | 4 147 |
| Trade and other receivables | 3 963 |
| Other current assets | 1 518 |
| Other non-current assets | 413 |
| Trade and other payables | (73 515) |
| Net assets acquired | 48 639 |
| Goodwill | 94 636 |
| Total purchase consideration | 143 275 |
| | |
| Satisfied in cash | 143 275 |

The goodwill is based on provisional fair values of net assets acquired and relates mainly to benefits of getting access to the US Applebee's® restaurant market and its customers.

The provisional fair values of assets and liabilities acquired are based on the amounts from Apple Grove Holdings historical accounting records. These values will be subject to further adjustments as additional information is obtained. The final valuation of acquired assets, assumed liabilities and contingent liabilities will be completed during the second half of the year 2008. This process may result in further adjustments to the carrying amounts of identifiable net assets as at the acquisition date.

The expected purchase price is based on the amount of EBITDA to be generated by AppleGrove Holdings in the period between 1 April 2007 and 31 March 2008. If the EBITDA for this period is below 15 000 TUSD then the Purchase Price shall be adjusted down by 6x the shortfall. The price resulting from initial calculation amounts to 59 187 TUSD.

The above purchase price includes the amount of 5 000 TUSD related to an option which entitles to the purchase of remaining 20% of shares in AppleGrove Holdings within 3 years following the date of 9 July 2008, upon meeting specified conditions.

- On 18 July 2008, AmRest informed of signing a Share Issue Agreement ("the Issue Agreement") by and between AmRest Polska ("the Issuer") and ABN AMRO Bank (Polska) S.A. ("the Agent"). On the basis of the Issue Agreement a 7-year Bond Issue Programme ("BIP") for short and medium term bonds with a total value of PLN 300 million will be launched. BIP stipulates the possibility or issuing bonds in several tranches.
- On 23 July 2008, AmRest informed of signing Annex no. 1 to the Loan Agreement concluded on 11 March 2008 by and between American Restaurants Sp. z o.o. and ABN AMRO Bank N.V. and ABN AMRO Bank (Polska) S.A. On the basis of the Annex, the amount of the loan was increased to PLN 200 million (from PLN 150 million). Other terms and conditions of the Loan Agreement have not changed.
- On 28 July 2008, AmRest informed of signing a non-binding Memorandum of Understanding with Kuwait Food Company S.A.K.. Parties to the memorandum expressed their will to enter into

negotiations relating to signing a Joint Venture Agreement and establishing a Joint Venture Company to operate Rostiks KFC and Pizza Hut restaurants in the Ukraine. Memorandum shall be binding until the joint venture agreement is signed, but no longer than until 31 December 2008.

- As a result of the exchange transactions made after 30 June 2008, The Group holds 3 060 768 Sfinks Polska S.A.'s 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.