AmRest Holdings SE

Consolidated annual financial statements as at and for the twelve months ended 31 December 2008

Contents:

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AmRest Holdings SE

Board Member

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AmRest Holdings SE

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Wrocław, 30 April 2008

Consolidated annual income statement
for the 12 months ended 31 December 2008 and 2007

In PLN thousands	Note	2008	2007
Restaurant sales	2	1 427 408	853 355
Restaurant expenses:	3		
Costs of food		(464 953)	(284 332)
Direct marketing costs		(61 509)	(38 991)
Direct depreciation and amortization expenses		(60 080)	(48 953)
Payroll and employee benefits		(324 157)	(163 017)
Continuing franchise fees		(87 350)	(50 244)
Occupancy and other operating expenses		(269 933)	(148 486)
Total restaurant expenses		(1 267 982)	(734 023)
Gross profit on sales		159 426	119 332
General and administrative expenses (G&A)	3	(92 516)	(54 482)
Depreciation and amortization expenses (G&A)	3	(3 664)	(2 809)
Other operating income	4	18 484	8 466
(Loss)/gains on disposal of property, plant and equipment and intangibles	8,16	6 635	(1 155)
Impairment losses	3	(7 272)	(1 708)
Operating profit		81 093	67 644
Finance income	2,5	3 709	3 682
Finance costs	2,6	(22 486)	(7 964)
Share of profit of associates	2,29	(15 081)	1 132
Impairment of shares in associates	2,29	(10 349)	-
Profit before tax	7	36 886	64 494
Income tax expense	2,7	(16 082)	(15 639)
Profit for the period		20 804	48 855
Attributable to:			
Minority interests		(3 319)	291
Equity holders of the parent		24 123	48 564
Basic earnings per share in Polish zloty	27	1.70	3.62
Diluted earnings per share in Polish zloty	27	1.69	3.51

The consolidated income statement has to be analyzed jointly with the notes which constitute an integral part of these consolidated financial statements.

Consolidated annual balance sheet as at 31 December 2008 and 2007

In PLN thousands

	Note	2008	2007
Assets			
Property, plant and equipment	8	493 035	272 663
Goodwill	10	300 628	142 475
Other intangible assets	9	43 931	13 955
Investments in associates	2,29	37 725	2 353
Other non-current assets	11	57 359	47 952
Deferred tax assets	7	16 113	12 279
Total non-current assets		948 791	491 677
Inventories	12	20 878	11 594
Trade and other receivables	13	66 162	34 489
Corporate income tax receivables		1 098	403
Other current assets	14	12 263	11 621
Derivative financial instruments	32	9 254	-
Cash and cash equivalents	15	37 583	46 873
Assets held for sale	16	-	0
Total current assets		147 238	104 980
Total assets	2	1 096 029	596 657
Equity	17		
Share capital		545	544
Reserves		314 808	320 532
Accumulated deficit		(10 353)	(58 917)
Profit for the period		24 123	48 564
Translation reserve		24 750	(21 576)
Equity attributable to shareholders of the parent		353 873	289 147
Minority interests		16 812	4 316
Total equity		370 685	293 463
Liabilities			
Interest-bearing loans and borrowings	18	391 934	124 146
Finance lease liabilities	24	4 024	4 160
Employee benefits	20	1 548	1 221
Provisions	21	5 529	5 887
Deferred tax liability	7	10 589	10 124
Other non-current liabilities	22	551	2 337
Total non-current liabilities		414 175	147 875
Interest-bearing loans and borrowings	18	40 536	38 552
Finance lease liabilities	24	597	1 442
Trade and other accounts payable	23	269 642	111 527
Income tax liabilities		394	3 798
Total current liabilities		311 169	155 319
Total liabilities	2	725 344	303 194
Total equity and liabilities		1 096 029	596 657

The consolidated balance sheet has to be analyzed jointly with the notes which constitute an integral part of these consolidated financial statements

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Consolidated annual cash flow statement
for the 12 months ended 31 December 2008 and 2007

In PLN thousands	Note	2008	2007
Cash flows from operating activities			
Profit before tax		36 886	64 494
Adjustments for:			
Share of profit of associates	29	15 081	(1 132)
Impairment of shares in associates	29	10 349	
Amortization	9	3 662	6 198
Depreciation	8	60 082	45 564
Interest expense, net	5,6	20 900	3 655
Foreign exchange gain	5,6	(2 853)	(2 167)
Loss/(gain) on disposal of property, plant and equipment and intangibles	8	(6 635)	1 155
Impairment of assets	3	7 473	1 694
Equity-settled share-based payments expenses	20	2 406	1 433
Working capital changes:			
Change in receivables		(23 559)	1 813
Change in inventories		(5 806)	(1 995)
Change in other assets		9 986	(8 858)
Change in payables and other liabilities		115 747	26 380
Change in other provisions and employee benefits		296	(3 855)
Income tax paid		(21 270)	(12 500)
Interest paid		(20 900)	(3 655)
Other		8 331	(4 141)
Net cash provided by operating activities		210 176	114 083
Cash flows from investing activities			
Acquisition of a subsidiaries, net of cash acquired	2	(165 838)	(71 270)
Proceeds from the sale of property, plant and equipment, and intangible assets	8	19 453	4 520
Proceeds from held-to-maturity debt securities		0	9 984
Acquisition of property, plant and equipment		(175 319)	(99 262)
Acquisition of intangible assets	9	(12 862)	(6 307)
Acquisition of shares in associates	8	(59 317)	-
Net cash used in investing activities		(393 883))	(162 335)
Cash flows from financing activities			
Proceeds from borrowings		536 518	77 000
Redemption of debt securities issued		(21 000)	-
Proceeds from issuance of debt securities		30 596	-
Proceeds from shares issued		1 124	-
Repayment of borrowings		(377 543)	(3 760)
Repayment of finance lease		(981)	(2 881)
Net cash provided by/(used in) financing activities		168 714	70 359
Net change in cash and cash equivalents		(14 993)	22 107
Cash and cash equivalents, beginning of period		46 873	25 241
Effect of foreign exchange rate movements		5 703	(475)
Cash and cash equivalents, end of period		37 583	46 873

The consolidated cash flow statement has to be analyzed jointly with the notes which constitute an integral part of these consolidated financial statements.

Statement of annual changes in consolidated equity
for the 12 months ended 31 December 2008 and 2007

	Attributable to equity holders of the Parent Company									
In PLN thousands	**Share capital (Note 19)**	Share premium	Share options (Note 21)	Other reserves	**Total reserves**	**Accumulated deficit**	**Currency translations**	**Total**	**Minority interests**	**Total**
As at 01.01.2007	**519**	210 302	2 644	6 191	**219 137**	**(58 917)**	**(4 943)**	**155 796**	**79**	**155 875**
Employee share option scheme – value of employee services	**-**	-	1 433	-	**1 433**	**-**	**-**	**1 433**	**-**	**1 433**
Currency translation differences (Notes 2, 17)	**-**	-	-	-	**-**	**-**	**(16 633)**	**(16 633)**	**-**	**(16 633)**
Issue of shares	**25**	99 962	-	-	**99 962**	**-**	**-**	**99 987**	**-**	**99 987**
Capital and reserves attributable to minority interests (Note 4)	**-**	-	-	-	**-**	**-**	**-**	**-**	**3 946**	**3 946**
Profit for the period	**-**	-	-	-	**-**	**48 564**	**-**	**48 564**	**291**	**48 855**
As at 31.12.2007	**544**	310 264	4 077	6 191	**320 532**	**(10 353)**	**(21 576)**	**289 147**	**4 316**	**293 463**
As at 01.01.2008	**544**	310 264	4 077	6 191	**320 532**	**(10 353)**	**(21576)**	**289 147**	**4 316**	**293 463**
Employee share option scheme – value of employee services	**-**	-	2 406	-	**2 406**	**-**	**-**	**2 406**	**-**	**2 406**
Employee share option scheme – value of options realized	**-**	-	(859)		**(859)**			**(859)**		**(859)**
Currency translation differences (Notes 2, 17)	**-**	-	-	-	**-**	**-**	**46 326**	**46 326**	**-**	**46 326**
Share issue	**1**	1 409	-	-	**1 409**	**-**	**-**	**1 410**	**-**	**1 410**
Capitalization of foreign exchange differences on borrowings				6 708	**6 708**			**6 708**		**6 708**
Dividends				612	**612**			**612**		**612**
Measurement of Put options				(23 496)	**(23 496)**			**(23 496)**		**(23 496)**
Measurement of cash flow hedges				7 496	7 496			7 496		7 496
Capital and reserves attributable to minority interests	**-**	-	-	-	**-**	**-**	**-**	**-**	**15 815**	**15 815**
Profit for the period	**-**	-	-	-	**-**	**24 123**	**-**	**24 123**	**(3 319)**	**20 804**
As at 31.12.2008	**545**	311 673	5 624	(2 489)	**314 808**	**13 770**	**24 750**	**353 873**	**16 812**	**370 685**

The statement of changes in consolidated equity has to be analyzed jointly with the notes which constitute an integral part of these consolidated financial statements.

1 Information on the Group and significant accounting policies

(a) General information

AmRest Holdings SE ("the Company") was established in the Netherlands in October 2000 as a joint-stock company. On 19 September 2008, the Commercial Chamber in Amsterdam registered the change in the legal status of the Company to a European Company (Societas Europaea) and of its name to AmRest Holdings SE. On 22 December 2008, the District Court for Wrocław-Fabryczna in Wrocław, 6th Business Department registered the new registered office of AmRest in the National Court Register. The address of the Company's new registered office is: pl. Grunwaldzki 25-27, Wrocław (50-365), Poland.

The Court also registered amendments to the Company's Memorandum of Association related to the transfer of the registered office of AmRest to Poland.

AmRest is the first public company in Poland operating in the form of a European Company. The purpose of transforming AmRest into a European Company was to increase its operating effectiveness and reduce operating and administrative expenses.

Hereafter, the Company and its subsidiaries shall be referred to as "the Group".

The Group's consolidated financial statements for the 12-month period ended 31 December 2008 cover the Company, its subsidiaries and the Group's shares in associates.

These consolidated financial statements were approved by the Company's Management Board on 30 April 2009.

The Group's core activity is operating Kentucky Fried Chicken ("KFC"), Pizza Hut, Burger King and Starbucks restaurants through its subsidiaries in Poland, the Czech Republic, Hungary, Russia, Serbia and Bulgaria, on the basis of franchises granted, and Applebee's® in the USA, as well as proprietary "Rodeo Drive" and "Freshpoint" restaurants.

On 27 April 2005, the shares of AmRest Holdings SE were quoted for the first time on the Warsaw Stock Exchange ("GPW").

Before 27 April 2005, the Company's co-shareholders and entities exercising their rights from the shares held in the Company were International Restaurants Investments, LLC ("IRI") with its registered office in the United States of America, and Kentucky Fried Chicken Poland Holdings BV ("KFC BV") with its registered office in the Netherlands. The co-shareholders held 50% shares each and had the same proportion of voting rights before the Company was first quoted on the stock exchange.

IRI was a company controlled by American Retail Concepts, Inc. with its registered office in the United States of America ("ARC"), and KFC BV was a company controlled by YUM! Brands, Inc. ("YUM!") with its registered office in the USA.

In connection with the flotation of the Company on GPW, YUM! sold all its shares in the Company and is no more a shareholder or a related entity. Also when the Company was floated on GPW, IRI sold part of the shares held.

As at 31 December 2008, WBK AIB Asset Management was the largest shareholder of AmRest and held 20.24% of its shares and voting rights.

Pizza Hut and KFC restaurants operate on the basis of franchise agreements signed with YUM! and YUM! Restaurants International Switzerland, Sarl ("YRIS") which is a subsidiary of YUM! Each of the franchise agreements covers a period of 10 years, with the possibility of extending it for a further 10-year period, which is conditional to meeting specific terms and conditions specified in the agreements.

Burger King restaurants operate on the basis of franchise agreements signed with Burger King Europe GmbH with its registered office in Zug, Switzerland. The franchise agreements are concluded separately by each restaurant upon its being opened. Each of the franchise agreements covers a period of 10 years, with the possibility of extending it for a further 10-year period, which is conditional to meeting specific terms and conditions specified in the agreements.
The Group will open and operate Burger King restaurants according to a precisely specified development plan which stipulates a minimum number of openings in each development year, in accordance with the definition in the Development Plan.

On 8 March 2007, the Company signed a "Development Agreement" with Burger King Europe GmbH ("BKE"), relating to opening and operating Burger King restaurants in Poland on a franchise basis. Burger King restaurants operate on the basis of franchise agreements signed with Burger King Europe GmbH with its registered office in Zug, Switzerland.

The main terms and conditions of the signed "Development Agreement" are as follows:

- During the first two years after opening the first Burger King restaurant by the Group, BKE will pay to the advertising and sales promotion fund an amount equal to 2.5% of the monthly sales of all Burger King restaurants operated by the Group. During the third year of opening the first Burger King restaurant by the Group, BKE will pay to the advertising and sales promotion fund an amount equal to 2.0% of the monthly sales of all Burger King restaurants operated by the Group.
- During the first five years, the preliminary fee paid by the Group in respect of franchise agreements concluded for each Burger King restaurant for a period of 10 years will amount to USD 25,000 (should the Group extend the franchise period for a further 10 years, the fee for renewing the franchise will amount to another USD 25,000). Upon opening each consecutive Burger King restaurant exceeding the number of restaurants specified in the development plan, the preliminary fee will be reduced by 50%.
- The Group will open and operate Burger King restaurants according to a precisely specified development plan which stipulates the minimum number of openings in each development year, in accordance with the definition contained in the Development Plan.

As at 31 December 2008, the Group had 12 open Burger King restaurants.

On 25 May 2007, the Group signed agreements with Starbucks Coffee International, Inc. ("Starbucks") relating to the development of Starbucks cafés in Poland, the Czech Republic and Hungary. The agreement covers a period to 31 May 2022 and provides for an option to extend it for another 5 years, after specific terms and conditions have been met.

The Parties established three separate companies in each of the 3 countries: Poland, the Czech Republic and Hungary. On 27 March 2007, a new company was established in Poland – AmRest Coffee Sp. z o.o. The Czech AmRest Coffee s.r.o. was established on 14 August 2007, and the Hungarian AmRest Kávézó on 31 August 2007. These companies are the only entities authorized to develop and run Starbucks cafés in Poland, the Czech Republic and Hungary, without exclusivity rights to some of the institutional locations.

The Group took up 82%, and Starbucks 18% of the share capital in the newly established companies. In the third and fourth year after establishing the companies, if the Group does not meet the commitments relating to opening and operating a minimum number of Starbucks cafés in Poland, the Czech Republic and Hungary, Starbucks will be entitled to increase its share in the companies by purchasing additional shares (maximum up to 50%). In the fifth and ninth year Starbucks will have an unconditional option to increase its shares to a maximum of 50%. In the event of a disputed take-over or change of control over the Company and/or its shareholders, Starbucks will be entitled to increase its share to 100% by purchasing shares from the Group.

The Group will be obliged to develop and run Starbucks cafés in accordance with the development plan which stipulates the minimum number of cafés to be opened each year in the period of the agreements being in force.

(in PLN thousands unless stated otherwise)

Should the Group not discharge the duties following from the development plan, Starbucks will be entitled to charge it contractual penalty or terminate the agreements. The Agreements also include provisions relating to deliveries of coffee and other basic raw materials from Starbucks or other approved or determined suppliers.

On 9 July, AmRest LLC (“AmRest USA”) purchased 80% of shares in Apple Grove Holdings, LLC (“AGH”), a limited liability company with its registered office in Delaware, USA from Grove Ownership Holding, LLC (“the Seller”), a limited liability company with its registered office in Georgia, USA.

The above transaction allowed the Group to enter the American restaurant market by acquiring 104 Applebee’s® restaurants. AppleGrove Holdings, LLC has a signed franchise agreement with Applebee’s Franchising LLC. The preliminary fee paid by the Group in respect of signing the franchise agreement for each Applebee’s® restaurant for a period of 20 years, with the option of extending it for a further 10 years, is USD 35,000.

As at 31 December 2008, the Group comprised the following subsidiaries:

Company name	Address and country of the registered office	Main area of operation	Name of Parent Company	Share in capital and total voting rights	Date of taking up control
AmRest Sp. z o.o.	Wrocław, 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
International Fast Food Polska Sp. z o.o. in liquidation	Wrocław, Poland	No current operations	AmRest Sp. z o.o.	100.00 %	January 2001
Pizza Hut s.r.o.	Prague, Czech Republic	No current operations	American Restaurants s.r.o. AmRest Sp. z o.o.	99.973% 0.027%	December 2000
AmRest Kft	Budapest, Hungary	Operating restaurants in Hungary	AmRest Sp. z o.o.	100.00 %	June 2006
Grifex I Sp. z o.o. in liquidation *	Wrocław, Poland	No current operations	AmRest Sp. z o.o.	48.00 %	September 2003
American Ukraina t.o.w.	Kiev, the Ukraine	No current operations	AmRest Sp. z o.o.	100.00 %	December 2005
AmRest Coffee Sp. z .o.o.	Wrocław, Poland	Established to operate Starbucks stores in Poland	AmRest Sp. z o.o. Starbucks Coffee International, Inc	82.00 % 18.00 %	March 2007
Bécsi út.13. Kft	Budapest, Hungary	Owner of the building where the office area is located	AmRest Kft	100.00 %	April 2007
AmRest EOOD	Sofia, Bulgaria	Operating restaurants in Bulgaria	AmRest Sp. z o.o.	100.00 %	April 2007
AmRest Coffee s.r.o.	Prague, Czech Republic	Established to operate Starbucks stores in the Czech Republic	AmRest Sp. z o.o. Starbucks Coffee International, Inc	82.00 % 18.00 %	August 2007

(in PLN thousands unless stated otherwise)

AmRest Acquisition Subsidiary Inc.	Wilmington, USA	Holding activities	AmRest Holdings SE	100.00 %	May 2007
OOO AmRest	Petersburg, Russia	Operating restaurants in Russia	AmRest Acquisition Subsidiary Inc. AmRest Sp. z o.o.	1,56 % 98,44%	July 2007
OOO KFC Nord	Moscow, Russia	No current operations	OOO AmRest	100 00%	July 2007
OOO KFC South	Moscow, Russia	No current operations	OOO AmRest	100 00%	July 2007
OOO Sistema Bistrogo Pitania.	Moscow, Russia	No current operations	OOO AmRest	100 00%	July 2007
AmRest Kávézó Kft	Budapest, Hungary	Established to operate Starbucks stores in Hungary	AmRest Sp. z o.o. Starbucks Coffee International, Inc	82.00 % 18.00 %	August 2007
AmRest D.O.O.	Belgrade, Serbia	Operating restaurants in Serbia	AmRest Sp. z o.o. ProFood Invest GmbH	60.00 % 40 00%	October 2007
AmRest LLC	Wilmington, USA	Holding activities	AmRest Sp. z o.o.	100.00 %	July 2008
AppleGrove Holdings LLC	Delaware, USA	Operating Applebee's restaurants in the USA	AmRest LLC Grove Ownership Holdings LLC	80 % 20 %	July 2008
SCM Sp. z o.o.**	Chotomów, Poland	Delivery services for restaurants provided to the Group	AmRest Sp. z o.o.	51.00%	April 2005

* Despite the 48% share in capital and votes held, the Group consolidates this Company as a subsidiary because on the basis of agreements with the key shareholder it holds control over its operations and finance.

** On 6 October 2008, AmRest Sp. z o.o. purchased shares in SCM Sp. z o.o.; currently it holds 51 % of total shares.

On 28 October 2008, a decision was made by the District Court for the capital city of Warsaw to consolidate the subsidiaries Galeria Arka Sp. z o.o. and Doris 2006 Sp. z o.o. with AmRest Sp. z o.o..

(in PLN thousands unless stated otherwise)

As at 31 December 2008, the Group comprised the following associated entities included in the financial statements under the equity method:

Company name	Address and country of the registered office	Main area of operation	Name of Parent Company	Share in capital and total voting rights	Date of purchase
Worldwide Communication Services LLC	Nevada, USA	Marketing activities on behalf of the Group entities	AmRest Sp. z o.o.	33.33 %	October 2003
Red 8 Communications Group Sp. z o.o. *	Warsaw, Poland	Marketing activities on behalf of the Group entities	Worldwide Communication Services LLC	17.33%	May 2002
SCM s.r.o.	Prague, Czech Republic	Delivery services for restaurants provided to the Group	SCM Sp. z o.o.	40.50%	March 2007
Sfinks Polska S.A.**	Łódź Poland	Operating restaurants	AmRest Sp. z o.o.	32.99%	September 2008

* The Group has a 17.33% share in the voting rights and capital of Red 8 Communication Group Sp. z o.o.. The Group may have a material impact on the operation of the Company because it is a subsidiary of its associated entity – Worldwide Communication Services LLC, which holds 52% of voting rights in the company.

** AmRest Sp. z o.o. ("AmRest Poland") became the holder of 3 061 786 shares in Sfinks Polska S.A. ("Sfinks") as a result of a call to sell the shares in Sfinks and other transactions accounted for by 24 September 2008. AmRest Polska holds 3 061 786 Sfinks shares which is 32.99% of the company's share capital.

The Group's offices are in Wrocław, Poland. At 31 December 2008, the restaurants operated by the Group are located in Poland, the Czech Republic, Hungary, Russia, Bulgaria, Serbia and the USA.

(b) Representations on compliance of the financial statements with the International Financial Accounting Standards

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and adopted by the European Union for annual financial reporting, in force as at 31 December 2008. As at 31 December 2008, there are no discrepancies between the accounting policies adopted by the Group and the standards referred to above. The accounting policies which have been applied in the preparation of the annual consolidated financial statements comply with those used in preparing the annual consolidated financial statements for the year ended 31 December 2007, with the exception of the new standards binding as of 1 January 2008.

The following new standards, revisions and interpretations to the existing standards are binding for the Company in the 12 months ended 31 December 2008:

- IFRIC 11, "IFRS 2 - Group and Treasury share transactions". The interpretation will not affect the financial statements of the Group.

Below we list the standards recently published but not yet binding in the 12-month period ended 31 December 2008, new standards and revisions and interpretations to the existing standards which the Group did not apply earlier:

- IFRS 8 was published by the International Accounting Standards Board on 30 November 2006 and is binding for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14, Segment Reporting. The Standard defines new disclosure requirements relating to business segments and information on goods and services, geographical segments of business and key customers. IFRS 8 requires a management approach to reporting the results of business segments. The standard will have a material impact on the Group's financial statements and will lead to redefining the reporting segments.
- The revised IAS 23: Borrowing costs was published by the International Accounting Standards Board on 29 March 2007 and is binding for annual periods beginning on or after 1 January 2009. The change relates to the accounting treatment of borrowing costs which may be directly attributed to the acquisition, construction or manufacture of assets which require significant time to be prepared for intended use or sale. According to the revised regulations, the possibility of immediate recognition of these costs in the income statement for the period in which they were incurred was removed. In accordance with the new requirement of the Standard, the costs have to be capitalized. The Management Board believes that applying the revised IAS 32 will not have a significant impact on the Group's financial statements.
- The revised IAS 1 was published by the International Accounting Standards Board on 6 September 2007 and is binding for annual periods which begin on or after 1 January 2009. The revision relates mainly to presentation issues in respect of equity with the aim of improving the ability of the financial statement users to analyze and compare information included therein. The Management Board is in the process of assessing the impact of the revised standard on the Group's financial statements.
- The revised IFRS 3 was published by the International Accounting Standards Board on 10 January 2008 and is binding prospectively in respect of business combinations which take place on or after 1 July 2009. The changes introduced give the possibility of selecting recognition of minority interests at fair value or at their share in the fair value of identifiable net assets, reassessing shares held to-date in the acquired entity to their fair value through profit or loss and additional guidelines for applying the purchase method, including treating transaction costs as costs of the period in which they were incurred. The revision will not affect the financial statements of the Group.
- The revised IAS 27 was published by the International Accounting Standards Board on 10 January 2008 and is binding for annual periods beginning on or after 1 January 2009. The Standard requires recognizing the effects of transactions with minority shareholders directly in equity, if control over the entity is maintained by the parent company. The Standard also describes in detail the method for recognizing loss of control over a subsidiary, i.e. it requires reassessing the remaining shares to fair value and recognizing the difference in the income statement. The Group will apply the revised IFRS 27 prospectively to transactions concluded as of 1 January 2010.
- The revised IFRS 2 was published by the International Accounting Standards Board on 17 January 2008 and is binding for annual periods beginning on or after 1 January 2009. The revised Standard relates to two issues. it explains that the terms and conditions for acquiring entitlements are not only the condition of providing services and the condition related to the entity's operating results. The other features of the share-based payment plans are not considered as the terms and conditions for acquiring entitlement. The standard explains that accounting treatment of discontinuing a plan by an entity or any other party to the transaction should be identical. The Management Board is in the process of assessing the impact of the revised standard on the Group's financial statements.

- The revised IAS 32 and IAS 1 were published by the International Accounting Standards Board on 14 February 2008 and are binding for annual periods beginning on or after 1 January 2009. The amendments relate to the accounting treatment of some financial instruments which are characterized by similarity to equity instruments but are classified as financial liabilities. In accordance with the new requirement of the Standard, financial instruments such as puttable financial instruments or obligations to pay out shares in net assets only on liquidation are, after meeting specific terms, presented in equity. The Management Board is in the process of assessing the impact of the revised standard on the Group's financial statements.

- The revised IFRS 1 and IAS 27 were published by the International Accounting Standards Board on 22 May 2008 and are binding for annual periods beginning on or after 1 January 2009. The revisions allow applying "deemed cost" or fair value or carrying amount determined according to the accounting principles binding for subsidiaries, associates or co-subsidiaries in the separate financial statements. Moreover, the cost method was eliminated and replaced with the method for recognizing revenue in connection with the dividends received in the separate financial statements. The Management Board is in the process of assessing the impact of the revised standard on the Group's financial statements.

- Improvements in International Financial Reporting Standards – a set of revisions to the International Financial Reporting Standards (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, v 40, MSR 41), binding for annual periods beginning on or after 1 January 2009. The Management Board is in the process of assessing the impact of the revised standards on the Group's financial statements.

- IFRIC 12, Service Concession Arrangements, was issued by the International Financial Reporting Interpretations Committee on 30 November 2006 and is binding for annual periods beginning on or after 29 March 2009. The interpretation provides guidance on the application of existing standards by entities involved in concession arrangements for services between the public and private sectors. IFRIC 12 pertains to those arrangements in which the engager controls what services will be provided by the operator using the infrastructure, to whom these services will be provided and for what consideration. The Management Board is in the process of assessing the impact IFRIC 12 on the Group's financial statements.

- IFRIC 13 was issued by the International Financial Reporting Interpretations Committee on 28 June 2007 and is binding for periods beginning on or after 1 July 2008. The interpretation provides guidance on the accounting treatment of transactions resulting from customer loyalty programmes implemented by the entity such as loyalty cards or award credits. IFRIC 13 specifically indicates the correct manner of recognizing liabilities resulting from the necessity of delivering free of charge or reduced price goods or services to customers who realize their credits. The Management Board is in the process of assessing the impact of IFRIC 13 on the Group's financial statements.

- IFRIC 14 was issued by the International Financial Reporting Interpretations Committee on 9 July 2007 and is binding for annual periods beginning on or after 1 January 2009. The Interpretation includes general guidelines on how to assess the ceiling value of the fair value of plan assets over the current value of the respective defined benefit plan commitments which may be recognized as an asset in accordance with IAS 19 Employee benefits.

Moreover, IFRIC 14 explains how statutory or contractual requirements in respect of minimum finance may impact the amount of assets or liabilities of the respective defined benefit plan. The Management Board is in the process of assessing the impact IFRIC 14 on the Group's financial statements.

- IFRIC 15 was issued by the International Financial Reporting Interpretations Committee on 3 July 2008 and is binding for annual periods beginning on or after 1 January 2009. The Interpretation includes general guidelines on how to assess an agreement for construction work to determine whether its effects may be presented in the financial statements in accordance with IAS 11 Construction contracts or IAS 18 Revenue. Moreover, IFRIC 15 indicates the moment when revenue from completing a construction contract may be recognized. The Management Board is in the process of assessing the impact of IFRIC 15 on the Group's financial statements.
- IFRIC 16 was issued by the International Financial Reporting Interpretations Committee on 3 July 2008 and is binding for periods beginning on or after 1 October 2008. The Interpretation includes general guidelines relating to determining whether there is a risk of exchange rate fluctuations in respect of the functional currency and the presentation currency for the purpose of the consolidated financial statements of the parent company. Moreover, IFRIC 16 explains which entity in the Group may recognize an instrument hedging the net investment in a foreign operation, and specifically whether the parent company maintaining the net investment in a foreign operation also has to maintain a hedging instrument. IFRIC 16 also explains how an entity should determine amounts subject to reclassification from equity to the income statement both in respect of the hedging instrument and the hedged item, when the entity disposes of the investment. The Management Board is in the process of assessing the impact IFRIC 16 on the Group's financial statements.
- IFRIC 17 was issued by the International Financial Reporting Interpretations Committee on 27 November 2008 and is binding for annual periods beginning on or after 1 July 2009. The Interpretation included guidelines as to the moment of recognizing dividend, measuring the dividend and recognizing the difference between the value of the dividend and the carrying amount of the distributed assets. The Management Board is in the process of assessing the impact of IFRIC 17 on the Group's financial statements.
- IFRIC 18 was issued by the International Financial Reporting Interpretations Committee on 29 January 2009 and is binding for annual periods beginning on or after 1 July 2009. The Interpretation includes guidelines as to the recognition of the transfer of assets from customers, i.e. situations in which the definition of an asset is met, the identification of separately identifiable services (services provided in return for the transfer of an asset), recognition of revenues and cash flows from customers. The Management Board is in the process of assessing the impact of IFRIC 18 on the Group's financial statements.
- Revised IAS 39, Eligible hedged items, was published by the International Accounting Standards Board on 31 July 2008 and is binding for annual periods beginning on or after 1 July 2009. The revised standard includes explanations as to how to apply principles specifying whether the hedged risk or part of the cash flows are eligible for hedge accounting. A ban was introduced on the eligibility of inflation as a hedgeable component of a debt instrument with a fixed interest rate. The revisions also disallow including temporary values in a risk that is being unilaterally hedged when options are treated as a hedging instrument. The Management Board is in the process of assessing the impact of IAS 39 on the Group's financial statements.

- The revised IFRIC 9 and IFRS 7, Embedded Instruments, were published by the International Accounting Standards Board on 12 March 2009 and are binding for annual periods beginning on or after 30 June 2009. The revisions provide details of revisions to IFRS 7 and IAS 39 published in October 2008 which relate to embedded instruments. The revisions specify that when a financial asset is reclassified from the category of measured at fair value through profit or loss, all embedded instruments must be measured and if necessary presented separately in the financial statements. The Management Board is in the process of assessing the impact of IFRIC 9 and IFRS 7 on the Group's financial statements.
- Revised IFRS 7, Financial Instruments: Disclosures, was published by the International Accounting Standards Board on 5 March 2009 and are binding as of 1 January 2009. The revisions introduce a three-phase hierarchy for the purpose of disclosures of fair value and the requirement for making additional disclosures relating to the relative reliability of measurement at fair value. Moreover, the revisions explain and expand the requirements which had existed earlier in respect of disclosures relating to liquidity risk. The Management Board is in the process of assessing the impact of IFRS 7 on the Group's financial statements.
- The following standards and interpretations had not been approved by the EU as at the date of these financial statements: The revised IFRS 3, the revised IAS 27, amendments to IAS 39 from July 2008, revised IFRS 7 from March 2009, revised IFRIC 9 and IFRS 7 from March 2009, IFRIC 14, IFRIC 15, IFRIC 16, IFRIC 17 and IFRIC 18.
- Improvements to the International Financial Reporting Standards – set of amendments to 12 International Financial Reporting Standards binding for annual periods beginning on or after 1 January 2010. The Management Board is in the process of assessing the impact of the amendments to the standards on the Group's financial statements. The improvements have not been adopted by the EU.

(c) Form of presentation of the consolidated financial statements

The consolidated financial statements are presented in Polish zloties (PLN), rounded up/down to full thousands.

The financial statements were prepared on the historical cost basis. Non-current assets classified as held for trading are recognized at the lower of their carrying amount and fair value less costs to sell.

The preparation of the IFRS financial statements requires the Management of the Company to make certain assumptions and estimates which are reflected in the accounting policy and that affect the reported amounts of assets and liabilities and reported revenues and expenses during the period. The results of the estimates and the respective assumptions being the result of experience and various factors deemed to be justified in given circumstances are the basis for assessing the values of assets or liabilities which do not result directly from other sources. The actual financial results may differ from the adopted estimates.

The estimates and the assumptions on which they are based are subject to current verification. The adjustment of accounting estimates is recognized in the period in which it was made, on condition that it only relates to that period, or in the period in which it was made, and in future periods, if it relates both to the current and future periods.

Note 31 describes the assessments made by the Management Board in connection with the use of IFRSs which have a significant impact on the financial statements and the estimates which are at risk of significant adjustments in the following period.

The accounting policies described above have been applied consistently in all the financial years covered by the consolidated financial statements. These policies have been applied consistently by all the entities constituting the Group.

(d) Basis of preparation of the consolidated financial statements

Subsidiaries

Subsidiaries are entities in respect of which the Group is able to govern their financial and operating policies, which usually accompanies holding the majority of the total number of votes in an entity's decision-making body. In assessing whether the Group controls a given entity, the existence and impact of potential voting rights which may at a given time be exercised or exchanged is taken into account. Subsidiaries are consolidated under the acquisition method from the moment the Group takes full control over them. The entities cease to be consolidated when control ceases.

The acquisition of subsidiaries by the Group is accounted for under the purchase method. The acquisition cost is determined as the fair value of the assets transferred, the equity instruments issued and the liabilities incurred or transferred as at the exchange date, plus the cost directly related to the acquisition. Identifiable assets and liabilities, and contingent liabilities acquired under the business combination are initially measured at fair value as at the acquisition date, irrespective of the amount of the potential minority interest.

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

Transactions, settlements and unrealized gains on intercompany transactions are eliminated. Unrealized losses are also eliminated unless the transaction proves the impairment of the given asset transferred. Accounting policies used by subsidiaries were changed where necessary to ensure compliance with the Group accounting policies.

Minority interests and transactions with minority interests

The Group accounted for transactions with minority interests as for transactions with third parties not related to the Group. Sales to minority interests lead to recognizing the Group's gains or losses in the income statement. Purchases from minority interests lead to goodwill arising which is the difference between the acquisition price and the respective share in the acquired net assets at their carrying amounts.

Associates

Associates are entities on which the Group exerts significant influence but which it does not control, which usually accompanies holding 20% to 50% of the general number of votes in the decision-making body of the entity. Investments in associates are accounted for according to the equity method and are initially stated at cost. The Group's investment in associates includes goodwill (net of any potential accumulated impairment write-downs), determined as at the acquisition date.

The Group's share in the results of the associates from the date of purchase has been recorded in the income statement and its share in movements in other equity items from the date of purchase has been recorded in other equity items. The carrying value of the investment is adjusted for the total movements from the date of purchase. When the Group's share in the losses of an associate becomes equal or higher than the Group's share in the associate, which covers potential unsecured receivables, the Group discontinues recognizing further losses unless it has assumed the obligation or has made payments on behalf of the given associate.

Unrealized gains on transactions between the Group and its associates are eliminated in proportion to the Group's share in the said entities. Unrealized losses are also eliminated unless the transaction proves that the given asset transferred has been impaired. Accounting policies used by subsidiaries were changed where necessary to ensure compliance with the Group accounting policies.

(e) Foreign exchange trading

Functional currency and presentation currency

Each of the Group entities maintains financial reporting in the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Group entities operating in Poland is the Polish zloty, the functional currency of the Group entities operating in the Czech Republic is the Czech koruna, the functional currency of the Group entities operating in Hungary is the Hungarian forint, the functional currency of the Group entities operating in Russia is the Russian ruble, the functional currency of the Group entities operating in Serbia is the dinar, and the functional currency of the Group entities operating in the USA is the American dollar.

Due to the fact that most operations and transaction are concluded in Polish zloties, the Group presented its consolidated financial statements in Polish zloties.

Transactions denominated in foreign currencies

Transactions denominated in foreign currencies are translated into the functional currency at the rate prevailing as at the transaction date. Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated into Polish zloties at the rate prevailing as at that date. Foreign exchange differences arising as a result of translating the transactions denominated in foreign currencies into Polish zloties were recognized in the income statement. Non-monetary assets and liabilities stated at historical cost and denominated in foreign currencies are translated using the exchange rate as of the transaction date.

Financial statements of foreign operations

The financial result and the financial position of all subsidiaries whose functional currency is other than the presentation currency are translated to the presentation currency using the following procedures:

- assets and liabilities, including goodwill, and adjustments to fair value made during the consolidation are translated at the closing rate as at the balance sheet date;
- revenues and costs of foreign operations are translated at the mid exchange rate in the given period which approximately reflects translation at the exchange rates prevailing as at the transaction date;
- all the resulting foreign exchange differences are recognized in a separate item of equity.

Upon the disposal of the operations, foreign exchange differences are recognized in the income statement.

Foreign exchange differences arising on the measurement of net investments are recognized in a separate item of equity.

The functional currency of none of the subsidiaries is the currency of a hyperinflationary economy as at 31 December 2008.

(f) Franchise, licence agreements and other fees

As described in Note 1(a), the Group operates restaurants on the basis of franchise agreements concluded with YUM! and its subsidiaries. In accordance with the franchise agreements, the Group is obliged to pay a non-reimbursable preliminary fee upon opening each new restaurant and further fees over the period of the agreement in the amount of 6% of sales revenues, and to allocate 5% of all revenues to advertising activities specified in the respective agreements. Moreover, after the end of the initial period of the franchise agreement, the Group may renew the franchise agreement after paying a renewal fee.

Non-reimbursable preliminary fees are in reality fees for the right to use the Pizza Hut and KFC trademark and are included in intangible assets and amortized over the period of the franchise (usually 10 years). Further payments made in the period of the agreement are disclosed in the income statement upon being made. Fees for extending the validity of the agreements are amortized as of the date of a given extension agreement coming into force.

Non-reimbursable preliminary fees currently amount to USD 41.9 thousand per each restaurant whereas the fees related to the renewal of an agreement were set at 50% of the preliminary fee for each of the restaurants, indexed over the period of a given franchise agreement being in force with the consumer Price Index in the USA ("US Consumer Price Index").

The key terms and conditions of the franchise agreements which will be concluded with Burger King (Note 1(a)) were specified as follows:

- The licence is granted for a 10-year period from the date when the restaurant begins operating. The franchisee is entitled to extend the agreement for a further 10 years after meeting specified terms and conditions.
- The Franchisee will transfer to the Franchiser a monthly licence fee (franchise fee) of 5% of the sales revenue of the Burger King restaurants operated by the Franchisee.
- The Franchisee will pay to the Franchiser a monthly fee for sales advertising and promotion of 5% of the sales revenue of the Burger King restaurants operated by the Franchisee.

The main fees and the costs which will be incurred by the Group in connection with the agreements concluded with Starbucks Coffee International , Inc. (Note 1(a)) are as follows:

- The fee for development and the fee for providing services of USD 950 thousand, relating to the preliminary operating support.
- The preliminary franchise fee of USD 25 thousand per each opened Starbucks café.
- A fixed licence fee equal to 6% of sales revenues of each of the Starbucks cafés.
- The local marketing fee the amount of which will be determined annually between the parties to the agreements.

The fees and the costs which will be incurred by the Group in connection with the agreements concluded with Applebee's Franchising LLC (Note 1(a)) are as follows:

- The preliminary franchise fee of USD 35 thousand per each opened Applebee's restaurant.
- A fixed licence fee equal to 5% of sales revenues of each of the Applebee's restaurants.
- The franchisee will pay to the franchiser a monthly fee for advertising and promoting sales in an amount of no less than 2.75% of sales of the Applebee's restaurants operated by the Franchisee, in recognition of the fact that the Franchiser may increase the fee to 4%. Additionally, the franchisee is obliged to incur expenses on local marketing of 1% of the sales revenue of the Applebee's restaurants.

(g) Property, plant and equipment

Property, plant and equipment owned by the Group

The initial value of the property, plant and equipment is recognized in the books of account at historical cost net of accumulated depreciation and potential impairment. The initial value of the property, plant and equipment manufactured internally covers the cost of materials, direct labour, and – if material – the initial estimate of the cost of disassembly and removal of the assets and of bringing the location to the condition it had been in before the lease agreement was signed.

The financial costs relating to the liabilities incurred to finance the purchase of property, plant and equipment are recognized in the income statement as interest expenses.

If the property, plant and equipment include material components with different useful lives, particular components are considered to be separate assets.

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds from sale with carrying amounts and recognized in the income statement under “Proceeds from/losses on sale of non-financial non-current assets".

Assets related to opening restaurants

Costs directly related to purchasing locations and opening restaurants in given locations, including the costs of wages and salaries, and benefits of employees directly involved in launching a given location are included in assets (“property, plant and equipment”). The Group includes in the value of restaurants the development costs incurred from the moment when the completion of the project is considered likely. In the event of a later drop in the probability of launching the project at a given location, all the previously capitalized costs are transferred to the income statement. The costs of developing restaurants are depreciated over the expected useful life of the restaurant.

Leased assets

The Group is a Lessee of property, plant and equipment. Leases of property, plant and equipment under which virtually all the risks and benefits in respect of the ownership are attributable to the Group are recognized as finance leases. The assets leased under finance leases are recognized in assets as at the date of commencement of the lease term at the lower of their fair values and present value of the minimum lease payments. Each lease payment is divided into the amount decreasing the balance of the liability and the amount of finance costs so as to maintain a fixed interest rate in respect of the remaining portion of the liability. The respective rental obligations net of finance costs are recognized in finance lease liabilities. The interest element of finance costs is charged to costs in the income statement over the period of the lease so as to obtain a fixed periodical interest rate in respect of the remaining portion of the liability. Property, plant and equipment acquired under financial leases are depreciated over the shorter of the economic useful life of the asset and the lease period.

Costs incurred after commissioning fixed assets

Subsequent costs are included in the asset’s carrying amount or recognized 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.

Amortization and depreciation

Property, plant and equipment, including their material components, are depreciated on a straight-line basis over the expected useful life of the assets/components. Land and fixed assets under construction are not depreciated. The expected useful lives of assets are as follows:

• Buildings	30 – 40 years	
• Costs incurred on the development of restaurants (including leasehold improvements and costs of development of the restaurants)	10 years	*
• Plant and machinery	4 -8 years	
• Vehicles	5 years	
• Other property, plant and equipment	4 -8 years	

* shorter of 10 years and the lease term.

The residual value, depreciation method and economic useful lives are reassessed annually.

(h) Intangible assets

Computer software

Acquired licenses for computer software are capitalized on the basis of costs incurred to acquire and prepare specific software for use. These costs are amortized on the basis of the expected useful lives.

Favourable lease agreements

Favourable lease agreements were taken over in connection with the acquisition of subsidiaries and provide for lease fees lower than market fees. Favourable lease agreements are initially recognized at fair value and then at cost net of amortization and potential impairment (see Note (n) of the accounting policies).

Trademark

Trademarks have limited (finite) economic lives and are shown in the balance sheet at historical cost less accumulated amortization. Amortization is calculated on a straight-line basis to allocate the cost over the estimated useful life.

Rights to the Pizza Hut, KFC, Burger King Starbucks and Applebee's trademarks

See Note (f) of the accounting policies.

Other intangible assets

Other intangible assets are stated in the books of account at cost (purchase price or manufacturing cost) less accumulated amortization and potential impairment (See Note (n) of the accounting policies below).

Amortization

Intangible assets are amortized on a straight-line basis over the expected useful life of the assets if it is determined. Goodwill and other intangible assets whose expected useful lives cannot be specified are assessed annually for potential impairment (See Note (n) of the accounting policies below) and are not amortized. Other intangible assets are amortized as of the date of their being commissioned for use.

The expected useful lives of assets are as follows:

• Computer software	4 -5 years	
• Favourable lease agreements	2 - 10 years	*
• Trademark	5 years	
• Rights to the Pizza Hut , KFC and Burger King trademarks	10 years	
• Other intangible assets	5 -10 years	

* favourable agreements are amortized over the period to the end of the agreement

(i) Goodwill

Business combinations are accounted for under the purchase method. Goodwill on consolidation represents the excess of the acquisition price of shares over the fair value of the corresponding portion of the net assets.

Goodwill on consolidation is disclosed in the books of account as intangible assets and measured at cost net of accumulated impairment write-downs. Goodwill is not amortized. Instead, it is allocated to cash generating units and checked annually for potential impairment of the asset (See Note (n) of the accounting policies). Goodwill arising upon the acquisition of associates is recognized in the total carrying amount of the investments in associates.

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

Expenses incurred to increase the goodwill created internally and trademarks created internally are recognized in the income statement upon being incurred.

j) Financial assets

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial instruments that are either designated in this category or not classified in any of the other categories described below. The Group does not maintain any investments classified as available-for-sale financial assets as at the end of each of the periods covered by these consolidated financial statements.

Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. Financial assets are classified to this category if acquired principally for selling in the short term or if so designated by the Management Board. Derivative financial instruments are also classified as “assets held for trading” unless they are designated as hedges. Assets in this category are classified as current assets if they are held for trading or if their realization is expected within 12 months from the balance sheet date. The Group does not maintain any investments classified as financial assets at fair value through profit or loss as at the end of each of the periods covered by these consolidated financial statements.

Financial assets held to maturity

This category covers financial assets which the Management Board decided would be maintained to maturity upon inception. Financial assets held to maturity are stated at amortized cost. The carrying amount of investments measured at amortized cost is calculated as the amount due on maturity net of all non-amortized initial discounts or premiums.

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 recognized at amortized cost net of impairment write-downs and recognized as current assets in the balance sheet, under “Trade and other receivables” (See Note (k) of accounting policies below), if they mature within 12 months of the balance sheet date.

Regular investment purchase and sale transactions are recognized as at the transaction date – the date on which the Group commits to purchase or sell a given asset. Investments are initially recognized at fair value plus transaction costs. This relates to all financial assets not measured at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognized at fair value, and the transaction costs are recognized in the income statement. Financial assets recognized at fair value through profit or loss are derecognized when the rights to receive cash flows from the financial assets have expired or were transferred and the Company 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 amortized cost using the effective interest method.

(k) Trade and other receivables

Trade and other receivables include non-derivative financial assets not traded on an active market with fixed or determinable amounts to be repaid. These assets are initially recognized at fair value and then at amortized cost net of impairment (see Note (n) of the accounting policies).

(l) Inventories

Inventories include mainly materials and are stated at the lower of cost and net realizable value. The net selling price that can be obtained is construed as the estimated selling price achieved in the course of normal business activities, less estimated costs necessary to effect the sale. Inventory issues are accounted for on the FIFO basis. The cost of purchase of inventories includes costs directly related to purchasing and preparing the given asset for use.

(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

As at each balance sheet date the Group verifies the carrying amount of assets other than inventories (See Note (l) of the accounting policies) and deferred income tax assets (See Note (v) of the accounting policies), to determine whether the assets do not show signs of impairment. If there are signs of impairment, the recoverable value of the assets is determined. In respect of assets whose economic useful life is not determined and assets which were not commissioned for use, and goodwill, the recoverable amount is determined as at each balance sheet date. Impairment write-downs are recognized in the books of account in the event that the present value of an asset or a group of assets generating specific cash flows exceeds their recoverable value. Impairment losses are recognized in the income statement.

Impairment write-downs of trade and other receivables are recognized when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. If there is such evidence, the impairment write-downs recognized in amortized cost of the receivables are determined as the difference between the value of the assets following from the books of account as at the measurement date and the present value of the expected future cash flows discounted using the effective interest rate of the financial instrument. Impairment losses are recognized in the income statement.

The recoverable amount of the remaining assets is estimated at the higher of the fair value net of costs to sell and the value in use. Value in use is deemed to be the sum of discounted future cash flows which will be generated from the asset using the market discount rate before tax reflecting the time value of money and the risks characteristic for the given asset. If it is not possible to determine the future cash flows from a given asset, for the purpose of determining the value in use, a group of assets which includes the given asset, which generate specific cash flows, are taken into account. In such events, groups of cash-generating assets are deemed to be single restaurants.

Potential impairment of a restaurant is considered to be the fact of its incurring an operating loss during the financial year. In such an event, the discounted future economic benefits which the given facility will generate are determined. Potential impairment is determined on the basis of discounted cash flows from core activities until the date of closing the facility, in consideration of the residual value.

Moreover, upon taking a decision to close a restaurant, the value of appropriate assets is reviewed for potential impairment, and the period in use of the assets is changed. At the same time, the Group recognizes potential liabilities related to the costs of giving notice of the lease of premises in the books of account.

Reversal of impairment write-downs

Impairment write-downs in respect of receivables recognized at amortized cost are reversed if the later increase in their recoverable value may be objectively attributed to an event which arose after the impairment was recognized.

Impairment write-downs in respect of goodwill cannot be reversed. In respect of other assets, impairment write-downs are reversible if there are premises indicating that the impairment has ceased to exist and if estimates used to determine the recoverable value are changed.

Impairment write-downs are reversed only to the extent to which the carrying amount of an asset does not exceed the carrying amount it would be recognized at, net of depreciation, had the impairment not been recognized.

(o) Borrowings

Initially, borrowings are recognized in the books of account at cost which reflects the fair value net of transaction costs.

Subsequently, borrowings are recognized in the books of account at amortized cost, and any differences between the amortized cost and the value of the given financial instrument on maturity is recognized in the income statement in the period to maturity using the effective interest rate.

If borrowings are repaid before maturity, the resulting differences between the determined costs and the present costs are recognized 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 included in equity.

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

(q) Employee benefits

Share-based payments

The Group has two share-based payment plans. The fair value of work performed by the employees for a consideration payable in options increases costs. The total amount which has to be taken to the income statements over the vesting period is based on the fair value of options received. As at each balance-sheet date, the entity verifies its estimates. The impact of the potential verification of initial estimates is recognized by the Group in the income statement, in correspondence with equity. The proceeds from the exercise of options (net of transaction costs directly related to the exercise) are recognized in share capital (at nominal value) and in supplementary capital, in share premium.

Long-term employee benefits dependent on their years in service

The net value of liabilities related to long-term employee benefits is the amount of future benefits which were vested in the employees in connection with the work performed by them in the current and past periods. The liability was accounted for based on the estimated future cash outflows, and as at the balance sheet date, the amounts take into consideration the rights vested in the employees relating to past years and to the current year.

Retirement benefit contributions

During the financial period, the Group pays mandatory pension plan contributions dependent on the amount of gross wages and salaries payable, in accordance with the binding legal regulations. The public pension plan is based on the pay-as-you-go principle, i.e. the Group has to pay contributions in an amount comprising a percentage part of the remuneration when they mature, and no additional contributions will be due if the Company ceases to employ the respective staff. The public plan is a defined contribution pension plan. The contributions to the public plan are disclosed in the income statement in same the period as the related remuneration, under “Costs of wages and salaries, and employee benefits”.

(r) Provisions

Provisions are recorded in the balance sheet if the Group has a legal or constructive obligation arising from past events, and if it is probable that the discharge of this obligation will result in an outflow of economic benefits. If the effect of the time value of money is material, the amount of the provision is determined as the expected future cash flows discounted using the discount rate before tax which reflects the time value of money and the potential risks related to a given obligation.

Provisions for liabilities caused by restructuring are set up when the Group has a detailed, official restructuring plan and the restructuring has already started or information on it was published. No provisions are set up for future operating expenses.

Costs of bringing the location to the condition it had been in before the lease agreement was signed

The Company’s Management Board analyzes the potential future costs of bringing the location to the condition it had been in before the lease agreement was signed and sets up provisions if the costs are material.

Onerous contracts
Provisions for onerous contracts are set up if the expected revenues of the Group resulting from the contracts are lower than the unavoidable costs resulting from obligations under the contracts.

(s) Trade and other payables

These payables are initially recognized in the books of account at fair value, and subsequently at amortized cost.

(t) Revenues

Sales revenues comprise the fair value of the economic benefits received for the sale of goods, net of value-added tax. Sales of finished goods are recognized by the Group upon issuing them to the purchaser. Consideration for the goods is mainly in cash form.

(u) Operating leases, lease agreements

Leases whereby the major part of the risks and benefits from ownership remains with the lessor comprise operating leases. All the lease payments paid under the operating lease agreements are charged to costs on a straight-line basis over the period of the lease. The discounts received from lessors are recognized in the income statement in the same manner, as an integral part of lease fees.

Operating leases relate mainly to leases of premises where the restaurants operate. The respective costs are recognized in the income statement under “Lease costs and other operating expenses”.

(v) Income tax expense

The income tax shown in the income statement comprises the current and deferred portion. The current portion of the income tax includes tax calculated on the basis of the taxable income for the current period using the income tax rates which have been enacted or substantially enacted as at the balance sheet date, and adjustments of the income tax liability from prior years.

Income tax expense is recognized in the income statement, with the exception of transactions accounted for in equity, in respect of which the tax is also recognized directly in equity.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arose in respect of the initial recognition of an asset or liability under a transaction other than a business combination which has no impact on the profit/loss for accounting or tax purposes, it is not recognized. Deferred income 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 income tax asset is realized or the deferred income tax liability is settled. Deferred income tax is not recognized upon the initial recognition of goodwill.

Deferred income 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 income tax provisions are recognized on temporary differences arising on investments in subsidiaries and associates, unless the reversal of temporary differences is controlled by the Group and it is improbable that in the foreseeable future the differences will be reversed.

(w) Derivative financial instruments

The Group sporadically uses derivative financial instruments to hedge against foreign exchange risk in operating and financing transactions. Upon initial recognition derivative financial instruments are stated at fair value in the books of account. Then they are remeasured to their present fair values.

The derivative financial instruments concluded by the Group did not meet the criteria for applying hedge accounting. Changes in the fair value of those instruments were recognized immediately in the income statement.

As at the end of each of the periods covered by these financial statements the Group did not have any derivative financial instruments.

(x) Segment reporting

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

(y) Non-current assets held for sale

Non-current assets (or groups of assets) are classified as 'held for sale' and disclosed at the lower of: the carrying amount and the fair value net of the costs of preparing the asset for sale, if the carrying amount is realized mainly through the sale and not through on-going use.

(z) Business combinations of entities under joint control

Business combinations of entities or operations under joint control constitute business combinations under which all the combining businesses or operations ultimately come under the control of the same party or parties as they had been before the combination, and that control is not temporary. Such business combinations are accounted for under the pooling of interests method, i.e. they do not lead to adjustments to the fair values of particular assets or liabilities and in goodwill arising.

2 Segment reporting

Geographical segments

Despite the centralized manner of managing the Group, its operations are located mainly in Poland, the Czech Republic, Russia and the United States of America.

The geographical segmentation of the revenues generated by the Group depends on the geographical location of the Group's clients. The geographical segmentation of the Group assets depends on the geographical location of the Group's assets.

The operation of the Group's restaurants constitute one business segment. Restaurant products and clients may be characterized in a similar manner, and business risks and the level of return on operations are similar for all types of restaurants operated.

(in PLN thousands unless stated otherwise)

Below we present data relating to geographic segments for the twelve-month period ended 31 December 2008 and for the comparative period ended 31 December 2007.

	Poland	***Czech Republic***	***Russia***	***USA***	***Unallocated***	***Total***
2008						
Revenue from external customers	693 408	228 029	140 679	302 426	62 866	1 427 408
Inter- segment revenue						
Operating profit	81 422	8 204	9 972	(6 227)	(12 278)	81 093
Finance income						3 709
Finance costs						(22 486)
Share of profits of associates (Note 29)	(15 081)	-	-	-	-	(15 081)
Impairment of shares in associates	(10 349)	-	-	-	-	(10 349)
Income tax	-	-	-	-	-	16 082
Profit for the period	-	-	-	-	-	20 804
Segment assets	229 331	150 789	238 907	273 753	165 524	1 058 304
Investments in associates (Note 29)	37 725	-	-	-	-	37 725
Unallocated assets						0
Total assets						1 096 029
Segment liabilities	106 337	36 929	23 051	98 649	460 378	725 344
Unallocated liabilities	-	-	-	-	-	-
Total liabilities						725 344
Pension, health care, sickness fund state contributions (Note 20)	19 480	16 346	2 454	0	2 567	40 847
Depreciation (Note 8)	28 598	13 479	6 305	7 648	3 753	59 783
Amortization (Note 9)	2 495	550	414	459	43	3 961
Capital investment (Note 8, 9, 10)	89 085	49 470	53 509	192 949	22 354	407 367
Impairment fixed assets (Note 3, 8)	2 930	2 994	-	1 549	-	7 473
Impairment of trade receivables (Note 3)	1 213	-	-	-	(1 414)	(201)

(in PLN thousands unless stated otherwise)

	Poland	*Czech Republic*	*Russia*	*USA*	*Un allocated*	*Total*
2007						
Revenue from external customers	553 692	192 974	57 332	-	49 357	853 355
Inter- segment revenue						
Operating profit	46 394	19 982	4 571	-	(3 303)	67 644
Finance income						3 682
Finance costs						(7 964)
Share in profits of associates (Note 29)	1 132	-	-	-	-	1 132
Income tax						(15 639)
Profit for the period						48 855
Segment assets	193 826	121 860	210 422	-	-	526 108
Investments in associates (Note 29)	2 353	-	-	-	-	2 353
Unallocated assets					68 196	68 196
Total assets						596 657
Segment liabilities	72 932	24 793	17 603	-		115 328
Unallocated liabilities					187 866	187 866
Total liabilities						303 194
Pension, health care, sickness fund state contributions (Note 20)	16 783	11 550	2 604	-	354	31 291
Depreciation (Note 8)	29 087	11 758	2 391	-	2 328	45 564
Amortization (Note 9)	4 803	593	310	-	492	6 198
Capital investments (Note 8, 9, 10)	54 554	20 192	155 239	-	38 106	268 091
Impairment of fixed assets (Note 3, 8)	1 459	-	-	-	235	1 694
Impairment of trade receivables (Note 3)	14	-	-	-	-	14

Capital expenditure comprises increases in property, plant and equipment (Note 8) and intangible assets (Note 9), and increases in goodwill (Note 10).

The “Not allocated” column relates to asset and liability balances non-allocated to segments (covering borrowings and lease liabilities) and transactions of AmRest Holdings N.V. and subsidiaries located in Hungary, the Ukraine, Bulgaria and Serbia.

(in PLN thousands unless stated otherwise)

Establishing and acquiring subsidiaries and associates

Establishing and acquiring subsidiaries

Entry to the restaurant market in Russia

DESCRIPTION OF ACQUISITION

On 15 May 2007, AmRest Holdings SE established AmRest Acquisition Subsidiary, Inc, with its registered office in Delaware, USA.

On 2 July 2007, AmRest Acquisition Subsidiary, Inc. acquired from Michael Tseytin 100% shares in US Strategies, Inc., with its registered office in New Jersey, USA, controlling 91% of shares and voting rights in OOO Pizza Nord (current name OOO AmRest) – the franchisee of Pizza Hut and RostiksKFC brands in Russia. On the same date, American Restaurants Sp. z o.o. (a 100% subsidiary of AmRest Holdings SE) acquired the remaining 9% of shares and voting rights in OOO Pizza Nord from independent individuals. As a result of these transactions, the Group effectively gained 100% control over OOO Pizza Nord and its 19 Pizza Hut restaurants and 22 RostiksKFC restaurants operating in Russia (mainly in St. Petersburg and Moscow). As a result, the Group gained effectively a 75% and 20% market share in Pizza Hut and KFC restaurants in Russia, respectively. Several franchisees of KFC and Pizza Hut operate on the Russian market, who do not have exclusive rights to operate within the area.

On 2 July 2007, US Strategies. Inc. and AmRest Acquisition Subsidiary, Inc. merged creating one legal entity called AmRest Acquisition Subsidiary, Inc.

The above transactions were a further step by the Group towards becoming the leading restaurant network in Central and Eastern Europe.

On 23 June 2008, Michael Tseytin was appointed a Member of the Supervisory Board (related entity).

ALLOCATION OF THE ACQUISITION PRICE

The process of allocating the acquisition price to the purchased assets and acquired liabilities was completed. Details of the fair value of the acquired net assets, goodwill and acquisition price as at the acquisition date are presented below:

	Carrying amount	**Adjustment of fair value and other adjustments**	**Fair value**
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 and other payables	(34 193)	(18 366)	(52 559)
Net assets acquired	512	21 640	22 152
Goodwill (Note 10)			128 756
Acquisition price			**150 908**

(in PLN thousands unless stated otherwise)

Amount paid in cash	70 332
Amount paid in treasury shares	99 987
Expenses related to due diligence of the target	784
Adjustment of initial acquisition price	(20 195)
Acquisition price	**150 908**
Amount paid in cash	70 332
Acquired cash and cash equivalents	(962)
Cash outflows on acquisition	**69 370**

The fair value and the other adjustments presented in the table above relate mainly to:

- fair value measurement of property, plant and equipment;
- measurement of onerous contracts recognized as provisions;
- fair value measurement of liabilities in respect of identified risks;
- measurement of receivables and prepayments from the prior owner of OOO Pizza Nord – operating lease agreement

PARTIAL PAYMENT IN THE GROUP’S TREASURY SHARES

Part of the acquisition price was paid by issuing the Company’s 670 606 shares. As at the acquisition date (2 July 2007), the fair value of the shares issued (PLN 99 987 thousand) was determined on the basis of the market price of a share (PLN 149.1) according to the quotations on the Warsaw Stock Exchange.

To acquire the necessary number of treasury shares, the Company borrowed them from its shareholder – IRI (as at that date, IRI had 35% of voting rights and shares of AmRest Holdings SE), and then it issued them to the seller. On 27 August 2007, the Company issued 670 606 shares which it returned to IRI on 12 October 2007. The settlement with IRI was based on a specified number of shares, therefore, it was treated as a transaction recognized in equity and no change to the fair value of shares was recognized in the income statement in the period from 2 July 2007 to 12 October 2007.

ADJUSTMENTS TO THE ACQUISITION PRICE AFTER INITIAL RECOGNITION

The acquisition price is conditional because it depends on the amount of profit before interest, tax and amortization and depreciation (EBITDA) earned by OOO AmRest in the period from 2 July 2007 to 30 June 2008, and on the final level of liabilities acquired. As at 30 June 2008, the Management Board estimated the adjustment to the acquisition price at PLN 20 195 thousand from the initial level of PLN 170 319 thousand to PLN 150 124 thousand. Thus, the determined acquisition price as at 2 July 2007 is the Management’s best estimate but it I not final and may change as a result of negotiations conducted with the seller. After accounting for foreign exchange differences, the receivables from the seller as at 31 December 2008 amount to PLN 21 591 thousand (Note 13).

COLLATERAL

To secure the Group’s potential future claims and receivables from the seller, a pledge on all the shares which were part of the acquisition price was set up. The said claims may follow from the adjustments to the acquisition price described above. The seller is also responsible for all undisclosed liabilities which arose before the acquisition date. For security purpose, the shares were transferred to an escrow account, not directly to the seller, and will be issued gradually over a period of 5 years. Potential receivables and claims in respect of the seller will be satisfied in cash or shares in a number depending on their market price, as agreed. The seller has voting rights related to the shares put up as collateral.

GOODWILL

Goodwill relates mainly to benefits following from access gained to clients on the Russian restaurant market. Due to the specific nature of the restaurant operations, the Group does not maintain a register of its clients, the clients are not tied by any contracts and are not identified individually. Restaurants in Russia operate on the basis of similar franchise agreements as restaurants in Poland, in the Czech Republic and Hungary.

The Management Board believes that the franchise agreement concluded by OOO Pizza Nord is an arms' length agreement and therefore no adjustment was made to the fair value as at the acquisition date. Each individual restaurant on the acquired market is a cash generating unit. However, for management purposes, goodwill was allocated to all the Pizza Hut and KFC restaurants operated in Russia on the basis of particular countries, and not restaurants, and it cannot be objectively allocated to particular restaurants.

The Company conducted a goodwill impairment test as at 31 December 2008. No impairment was noted on the basis of the test.

IMPACT OF ACQUISITION ON THE CONSOLIDATED POSITION

The process of allocating the acquisition price to the purchased assets and acquired liabilities was completed. As a result, the temporary values of the assets and liabilities acquired as at 31.12.2007 were adjusted and the data in the financial statements for 2007 was restated as follows.

(in PLN thousands unless stated otherwise)

	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
Investments in associates	2 353	-	2 353
Other non-current assets	47 952	-	47 952
Deferred tax assets.	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
Available-for-sale financial 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 interests	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 liability	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 payables	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**

(in PLN thousands unless stated otherwise)

	2007before adjustments	Adjustments	2007 after adjustments
Restaurant sales	853 355	-	853 355
Restaurant expenses:			
Costs of food	(284 332)	-	(284 332)
Direct marketing costs	(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 (G&A)	(2 809)	-	(2 809)
Other operating income	8 441	25	8 466
(Loss)/gains 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 costs	(7 963)	(1)	(7 964)
Share of profits of associates	1 132	-	1 132
Profit before tax	63 930	564	64 494
Income tax expense	(15 237)	(402)	(15 639)
Net profit	**48 693**	**162**	**48 855**
Attributable to:			
Minority interests	291	-	291
Equity holders of the parent company	48 402	162	48 564
Basic earnings per share in Polish zloty	3.62	-	3.62
Diluted earnings per share in Polish zloty	3.51	-	3.51

(in PLN thousands unless stated otherwise)

Increase in share in the Russian restaurant market by acquiring 9 restaurants from OOO Tetra

On 26 February 2008, the Group acquired 9 RostiksKFC restaurants from OOO Tetra. The total value of the transaction amounted to PLN 26 235 thousand (USD 12 115 000).

The process of allocating the acquisition price to the purchased assets and acquired liabilities was completed.

Details of the fair value of the acquired net assets, goodwill and acquisition price as at the acquisition date are presented below: The fair value of acquired restaurant assets did not differ significantly from their carrying amounts.

Property, plant and equipment	1 089
Goodwill (Note 10)	25 146
	26 235
Paid in cash	26 235
Acquisition price	26 235

The restaurant acquisition transaction was not related to incurring any additional significant costs.

Increase in share in the Russian restaurant market by acquiring 2 restaurants from OOO Fast Food Restaurants Group

On 31 March 2008, the Group acquired 5 RostiksKFC restaurants from OOO Fast Food Restaurants Group. The total value of the transaction amounted to PLN 13 097 thousand (USD 6 156 000). The ownership rights were to be finally transferred when certain terms and conditions were met by the seller, which mainly related to extending the lease agreements in respect of the premises. As a result of the seller not meeting the terms and conditions in respect of 3 restaurants, they were excluded from the scope of the transaction. Therefore, ultimately, the Group acquired 2 restaurants, for a total amount of PLN 3 273 thousand (USD 1 521 000).

The process of allocating the acquisition price was completed.

Details of the fair value of the acquired net assets, goodwill and acquisition price as at the acquisition date are presented below: The fair value of acquired restaurant assets did not differ significantly from their carrying value.

Property, plant and equipment	46
Goodwill (Note 10)	3 227
	3 273
Paid in cash	3 273
Acquisition price	3 273

The restaurant acquisition transaction was not related to incurring any additional significant costs.

Increase in share in the Russian restaurant market by acquiring 4 restaurants from OOO Chicken Food

In August 2008, the Group acquired 4 RostiksKFC restaurants from OOO Chicken Food. The total value of the transaction amounted to PLN 12 526 thousand (USD 4 229 000).

The process of allocating the acquisition price to the purchased assets and acquired liabilities was not completed.

(in PLN thousands unless stated otherwise)

Details of the temporary fair value of the acquired net assets, temporary goodwill and acquisition price as at the acquisition date are presented below:

Property, plant and equipment	877
Goodwill (Note 10)	11 649
	12 526
Paid in cash	877
Remaining to be paid (Note 23)	11 649
Acquisition price	12 526

The restaurant acquisition transaction was not related to incurring any additional significant costs.

In the acquisitions described above, the goodwill relates mainly to the benefits from gaining better access to the Russian restaurant market clients. Due to the specific nature of the restaurant operations, the Group does not maintain a register of its clients, the clients are not tied by and contracts and are not identified individually. Restaurants in Russia operate on the basis of similar franchise agreements as restaurants in Poland, in the Czech Republic and Hungary.

Each individual restaurant is a cash generating unit. However, goodwill related to the acquisition of the above restaurants was allocated to the whole Russian segment.
For management purposes, goodwill is monitored on the basis of particular countries, and not restaurants, and it cannot be objectively allocated to particular restaurants. The Company conducted a goodwill impairment test as at 31 December 2008. No impairment was noted on the basis of the test.

Entry to the restaurant market in the USA

Acquisition of AppleGrove Holdings, LLC

On 4 July 2008, AmRest Holdings SE established AmRest, LLC, with its registered office in Delaware, USA. AmRest, LLC was established to acquire 80% of shares in AppleGrove Holdings LLC.

On 9 July 2008, AmRest LLC (“AmRest USA”) purchased 80% of shares in AppleGrove Holdings, LLC (“AGH”), a limited liability company with its registered office in Delaware, USA from Grove Ownership Holding, LLC (“the Seller”), a limited liability company with its registered office in Georgia, USA.

The above transaction allowed the Group to enter the American restaurant market by acquiring 104 Applebee’s® restaurants.

Details of the estimated fair value of the acquired net assets, goodwill and acquisition price as at the acquisition date are presented below (in PLN thousands).

	Carrying amount	**Adjustment of fair value and other adjustments**	**Fair value**
Cash and cash equivalents	3 810		3 810
Property, plant and equipment	91 083	(15 746)	75 337
Intangible assets	10 645	2 800	13 445
Inventories	4 090		4 090
Trade and other receivables	8 925	379	9 303
Other current assets	1 309	-3	1 306
Other non-current assets	408	(20)	388
Trade and other payables	(45 264)	14 454	(54 613)
Total net assets	75 006	1 864	53 067
Purchased share in net assets (80%)			42 453
Goodwill (Note 10)			81 130
Acquisition price			**123 583**
Amount paid in cash			123 526
Expenses related to due diligence of the target			767
Adjustment of initial acquisition price			(711)
Acquisition price			**123 583**
Amount paid in cash			123 526
Acquired cash and cash equivalents			(3 810)
Cash outflows on acquisition			**119 716**

The fair value and the other adjustments presented in the table above relate mainly to:

- fair value measurement of property, plant and equipment;
- fair value measurement of intangible assets;
- fair value measurement of liabilities in respect of identified risks.

Goodwill was calculated based on the fair values of acquired net assets and relates mainly to the benefits resulting from acquired access to American Applebee’s® restaurant chain clients.

The final acquisition price was adjusted compared with the initially determined price at PLN 123 526 thousand (USD 59 101 000) by PLN 711 thousand and finally amounted to PLN 123 583 thousand (USD 59 128 000). The adjustment was made on the basis of the profit before interest, tax and amortization and depreciation (EBITDA), which was realized by AppleGrove Holdings, LLC in the period from 1 April 2007 to 31 March 2008.

In accordance with the provisions of the AppleGrove Holdings, LLC acquisition agreement, for USD 5 million, AmRest purchased an option which entitles it to purchase the remaining 20% shares in AppleGrove Holdings, LLC, within three years of 9 July 2008, on certain terms and conditions. The price of the option was considered to be an intrinsic element of the acquisition price of 80% of shares in AppleGrove Holdings, LLC and as such does not constitute the Group’s separate asset.

(in PLN thousands unless stated otherwise)

On the basis of the provisions of the share purchase agreement, the Seller obtained the right to sell, in the form of put options, the remaining 20% shares in AppleGrove Holdings, LLC. These shares may be sold on each (beginning with the fifth) anniversary of the purchase of shares in AppleGrove Holdings, LLC by AmRest. The sale of the remaining shares by the Seller may also be exercised earlier, at any time, if any of the following conditions are met:

- AppleGrove Holdings, LLC announces bankruptcy;
- if at any moment, but no earlier than one year of executing the sales transaction, the valuation of the AppleGrove business made after the acquisition date is lower than 80% of the value of the business upon acquisition;
- if the gearing of AppleGrove Holdings, LLC exceeds four times the value of EBITDA;
- if the Company receives a notice of non-compliance with the terms of the agreement or a call to pay its liabilities early;
- if the entity controlling the Company changes;
- if the Company receives a notice of non-compliance with the terms of the agreement or notice of termination of the franchise agreements relating to 20% or more restaurants.

The put option in respect of 20% of shares held by the Seller is the Company's financial liability. In the opinion of the Management Board, the probability of exercising the option by the Seller in July 2009 is high. The table below presents details of the liability in the consolidated financial statements of the Group.

Date	Value of liability	Presentation in the consolidated financial statements
4 July 2008 – acquisition of the Company	23 495	Reduction of retained earnings by costs of 23 495
Discount (5 July – 31 December 2008)	842	Finance costs of 842
31 December 2008	**24 337**	**24 337**

Goodwill relates mainly to benefits following from access gained to clients on the American restaurant market. Due to the specific nature of the restaurant operations, the Group does not maintain a register of its clients, the clients are not tied by and contracts and are not identified individually.

Each individual restaurant on the acquired market is a cash generating unit. However, goodwill was allocated to all the Applebees's restaurants operated in the USA, as it is monitored for management purposes on the basis of particular countries and not restaurants, and it cannot be objectively allocated to particular restaurants. The Company conducted a goodwill impairment test as at 31 December 2008. No impairment was noted on the basis of the test.

Acquisition of associates

On 21 August 2008 AmRest announced a call for the sale of 11.20% of shares in Sfinks Polska S.A. ("Sfinks"). After accounting for the call on 22 September 2008 and concluding additional transactions on the exchange, AmRest increased its holdings to 3 061 786 shares which was 32.99% of Sfinks's share capital and entitled it to 3 061 786 voting rights, i.e. 32.99% of the total number of votes at Sfinks's General Shareholders' Meeting.

Thus, the Group gained a significant influence over Sfinks Polska S.A., qualified the Company as an associate and started to value it under the equity method.

The total price for the shares purchased in Sfinks amounted to PLN 59 272 thousand. Additional information on investments in associates can be found in Note 29.

(in PLN thousands unless stated otherwise)

3 Operating expenses

Operating expenses are as follows:

	12’2008	12’2007
Depreciation (Note 8)	59 783	45 564
Amortization (Note 9)	3 961	6 198
Food and materials	502 170	301 950
Utilities	44 613	26 715
External services	75 768	52 675
Payroll	311 218	158 614
Social security and employee benefits	70 308	35 755
Operating leases (occupancy cost) (Note 25)	125 214	64 545
Marketing expenses	61 509	38 991
Continuing franchise fees	87 350	50 244
Insurance	3 373	1 052
Business travel	7 930	3 679
Onerous contracts	0	763
Other	10 965	4 569
	1 364 162	791 314
Total restaurant expenses	1 267 982	734 023
Depreciation and amortization expenses (G&A)	3 664	2 809
Other general and administrative expenses	92 516	54 482
	1 364 162	791 314

Impairment costs are as follows:	12’2008	12’2007
Impairment on borrowings	(220)	-
Impairment on receivables (Note 13)	19	14
Total impairment of non-current assets	(201)	14
Impairment of property, plant and equipment (Note 8)	7 473	1 694
Total impairment of non-current assets	7 473	1 694
Total impairment of assets	7 272	1 708

4 Other operating income

	12’2008	12’2007
Management fees	459	51
Sublease income (Note 25)	2 418	1 748
Marketing income	3 363	2 168
Sales of logistics services	5 931	-
Other operating income	6 313	4 499
	18 484	8 466

(in PLN thousands unless stated otherwise)

5 Financel income

	12'2008	12'2007
Income from bank interest	1 101	1 515
Net foreign exchange gains	2 853	2 167
Other	(245)	-
	3 709	3 682

6 Finance costs

	12'2008	12'2007
Interest expense	(22 001)	(5 170)
Other	(485)	(2 794)
	(22 486)	(7 964)

7 Income tax expense

	2008	2007
Current tax	(19 451)	(8 752)
Change in deferred tax assets/provisions	3 369	(6 887)
Deferred tax recognized in the income statement	(16 082)	(15 639)

The income tax rates in force in the Group are as follows:

	Netherlands	Poland	Czech Republic	Hungary	Ukraine	Russia	Serbia	Bulgaria	USA
2008	29.1%	19.0%	24.0%	16.0%	25.0%	24.0%	10.0%	10.0%	38.0%
2007	29.6%	19.0%	24.0%	20.0%	20.0%	24.0%	10.0%	19.0%	-

Deferred income tax assets and provisions for were calculated using the following rates:

	Netherlands	Poland	Czech Republic	Hungary	Ukraine	Russia	Serbia	Bulgaria	USA
2008	29.1%	19.0%	24.0%	16.0%	25.0%	20.0%	10.0%	10.0%	38%
2007	29.1%	19.0%	24.0%	16.0%	25.0%	24.0%	10.0%	10.0%	-

(in PLN thousands unless stated otherwise)

Income tax on the Group's profit before tax differs from the theoretical amount which would be obtained if the weighted average tax rate applicable to consolidated companies were applied:

	12 months ended 31 December 2008	12 months ended 31 December 2007
Profit before tax	36 886	64 494
Income tax calculated according to domestic tax rates applicable to income in particular countries	7 034	13 571
Effect of permanent differences	2 451	(732)
Utilization of tax losses not recognized in the prior periods	-	188
Tax loss for the current period for which no deferred tax asset was recognized	3 315	0
Deferred income tax assets recognized on tax losses (not recognized in prior periods)	241	250
Effect of the remaining differences	3 041	2362
Corporate income tax in the income statement	16 082	15 639

The applicable weighted average tax rate amounted to 21.2% (for the period ended 31.12.2007: 20.7%).

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. After the offset, the following amounts are disclosed in the consolidated financial statements:

	31.12.2008	31.12.2007
Deferred tax asset:		
Deferred tax asset to be recovered after more than 12 months	935	261
Deferred tax asset to be recovered within 12 months	15 178	12 018
	16 113	12 279
Deferred tax provision:		
Deferred tax provision to be used after more than 12 months	91	213
Deferred tax provision to be used within 12 months	10 498	9 911
	10 589	10 124

Temporary differences after the offset accounted for in the calculation of deferred tax relate to the following items:

	Asset		Provision	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Property, plant and equipment and intangible assets	3 492	3 714	3 068	2 216
Receivables	171	550	306	3 947
Provisions and impairments	2 166	6 255		
Tax loss carryforwards	2 686	1 513		
Other differences	7 598	247	7 215	3 961
	16 113	12 279	10 589	10 124

(in PLN thousands unless stated otherwise)

Temporary differences before the offset are as follows:

	Asset		Provision	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Property, plant and equipment and intangible assets	3 492	5 413	3 068	2 216
Receivables	171	550	306	3 947
Provisions	2 166	6 255	-	-
Tax losses	2 686	1 513	-	-
Other differences	7 598	3 100	7 215	8 513
	16 113	16 831	10 589	14 676

As at 31 December 2008, tax loss carryforwards are as follows:

Poland	872
Czech Republic	10 436
Netherlands	11 406
Hungary	14 982
Ukraine	1 973
	39 669

Year of expiry of tax loss carryforwards	Value of tax losses	Tax losses in respect of which deferred tax assets were recognized	Tax losses in respect of which no deferred tax assets were recognized
2009	4 142	-	4 142
2010	4 082	-	4 082
2011	2 734	-	2 734
2012	174	-	174
2013	176	-	176
No time limit	28 361	14 935	13 426
	39 669	14 935	24 734

As at 31 December 2008, the Group did not recognize a deferred tax asset in respect of all tax loss carryforwards. The reason for not recognizing the remaining portion of the deferred tax asset was, among other things, the inability to utilize the losses in connection with the planned restructuring of the Group and no operating activity in some of the Group companies.

A tax authority may control tax returns (if they have not already been controlled) of Group companies from 3 to 5 years of the date of their filing.

(in PLN thousands unless stated otherwise)

8 Property, plant and equipment

The table below presents changes in the value of property, plant and equipment in 2008 and 2007.

2008	Land	Buildings and expenditure on development of restaurants	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
Gross value							
As at 1/1/2008	919	293 982	176 781	1 100	13 680	30 631	517 093
Acquisitions (Note 2)	-	37 218	44 534	37	211	(91)	81 909
Additions	1	65 190	52 777	430	11 001	45 920	175 319
Disposals	-	(15 398)	(8 141)	(289)	(4 072)	(3 704)	(31 604)
Transfers	-	33 910	(24 080)	-	27 219	(38 512)	(1 463)
Foreign exchange gains/losses	129	28 640	22 845	54	1 433	4 042	57 143
As at 31/12/2008	1 049	443 542	264 716	1 332	49 472	38 286	798 397
	-	-	-	-	-	-	-
Accumulated depreciation							
As at 1/1/2008	-	143 795	91 421	757	5 628	-	241 601
Acquisitions	-	1	44	20	-	-	65
Additions	-	25 500	26 971	123	7 130	59	59 783
Disposals	-	(10 779)	(2 995)	(172)	(3 614)	-	(17 560)
Transfers	-	(343)	(16 237)	(10)	16 269	-	(321)
Foreign exchange gains/losses	-	4 164	6 427	39	650	3	11 283
As at 31/12/2008	-	162 338	105 631	757	26 063	62	294 851
	-	-	-	-	-	-	-
Impairment write-downs							
As at 1/1/2008	-	2 622	8	-	7	192	2 829
Additions	-	7 473	-	-	-	-	7 473
Disposals	-	140	-	-	-	(191)	(51)
Transfers	-	9	-	-	-	-	9
Foreign exchange gains/losses	-	248	2	-	1	-	251
As at 31.12.2008	-	10 492	10	-	8	1	10 511
	-	-	-	-	-	-	-
Net book value as at 1/1/2008	919	147 565	85 352	343	8 045	30 439	272 663
Net book value as at 31/12/2008	1 049	270 712	159 075	575	23 401	38 223	493 035

(in PLN thousands unless stated otherwise)

2007	Land	Buildings and expenditure on development of restaurants	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
Gross value							
As at 1/1/2007	946	247 874	135 451	940	9 435	20 883	415 529
Acquisitions (Note 2)	-	8 109	23 638	211	474	5 900	38 332
Additions	-	23 054	23 735	-	4 616	47 857	99 262
Disposals	-	(11 867)	(5 729)	(6)	(612)	(1 660)	(19 874)
Transfers	-	31 662	9 363	-	228	(41 253)	0
Foreign exchange differences	(27)	(3 235)	(3 396)	(38)	(412)	(1 096)	(8 204)
As at 31/12/2007	919	295 597	183 062	1 107	13 729	30 631	525 045
Accumulated depreciation							
As at 1/1/2007	0	126 525	85 688	518	4 314	0	217 045
Additions	-	28 091	15 358	265	1 850	-	45 564
Disposals	-	(9 206)	(3 344)	(5)	(301)	-	(12 856)
Foreign exchange differences	-	(1 101)	(1 291)	(14)	(186)	-	(200)
As at 31/12/2007	0	145 410	97 702	764	5 677	0	249 553
Impairment write-downs							
As at 1/1/2007	0	5 541	14	0	33	1 191	6 779
Additions	-	1 676	8	-	10	-	1 694
Disposals	-	(4 521)	(19)	-	(41)	(1 008)	(5 589)
Foreign exchange differences	-	(74)	5	-	5	9	(55)
As at 31/12/2007	0	2 622	8	0	7	192	2 829
Net book value as at 1/1/2007	**946**	**115 808**	**49 749**	**422**	**5 088**	**19 692**	**191 705**
Net book value as at 31/12/2007	**919**	**147 565**	**85 352**	**343**	**8 045**	**30 439**	**272 663**

(in PLN thousands unless stated otherwise)

The property, plant and equipment listed below cover assets in finance lease, where the Group is the lessee:

	Land	Buildings	Machinery & equipment	Vehicles	Other tangible assets	Total
Gross value as at 31/12/2008	929	3 794	16 528	86	490	21 828
Accumulated depreciation as at 31/12/2008		1 193	6 811	36	271	8 311
Net value as at 31/12/2008	929	2 601	9 716	51	219	13 517
Gross value as at 31/12/2007	800	2 650	16 463	241	477	20 631
Accumulated depreciation as at 31/12/2007		894	7 503	77	363	8 837
Net value as at 31/12/2007	800	1 756	8 960	164	114	11 794

The table below shows the calculation of the loss on sale of property, plant and equipment and intangible assets, and a summary of impairment write-downs of property, plant and equipment in the period of twelve months ended 31 December 2008 and 2007:

	2008	2007
Proceeds from the sale of property, plant and equipment and intangible assets	19 453	520
Net cost of property, plant and equipment and intangible assets sold	(12 818)	(1 814)
Loss on disposal of non-financial non-current assets	6 635	(1 294)
Gain on disposal of non-financial non-current assets held for sale (Note 16)	-	139
Gain/(loss) on sale of non-financial non-current assets and non-current assets held for sale	6 635	(1 155)

The depreciation was charged to the costs of restaurant operations – PLN 56 944 thousand (prior period: PLN 43 241 thousand) and administrative expenses PLN 2 839 thousand (prior period: PLN 2 323 thousand).

(in PLN thousands unless stated otherwise)

9 Other intangible assets

The table below presents changes in the value of intangible assets in 2008 and 2007.

2008	Trademarks	Favourable lease and licence agreements	Licences for the use of Pizza Hut, KFC and Burger King trademarks	Other intangible assets	Total
Gross value					
As at 1/1/2008	-	9 465	19 775	11 404	40 644
Acquisitions (Note 2)	-	994	6 065	9 066	16 125
Increases	-	598	5 072	7 190	12 860
Decreases	-	366	(847)	(939)	(1 420)
Transfers	-	-	2 290	(1 027)	1 263
Foreign exchange differences	-	111	6 506	2 878	9 495
As at 31/12/2008	-	11 534	38 861	28 572	78967
Accumulated amortization					
As at 1/1/2008	-	7 103	12 151	7 363	26 617
Acquisitions (Note 2)	-	-	4 426	-	4 426
Increases	-	311	3 957	(307)	3 961
Decreases	-	-	(786)	(534)	(1 320)
Transfers	-	-	-	(15)	(15)
Foreign exchange differences	-	-	949	418	1 367
As at 31/12/2008	-	7 414	20 697	6 925	35 036
Impairment write-downs					
As at 1/1/2008	-	-	70	-	70
Increases	-	-	-	-	-
Decreases	-	-	(70)	-	(70)
Foreign exchange differences	-	-	-	-	-
As at 31/12/2008	-	-	-	-	-
Net value as at 1/1/2008	-	**2 362**	**7 554**	**4 041**	**13 955**
Net value as at 31/12/2008	-	**4 120**	**18 164**	**21 647**	**43 931**

(in PLN thousands unless stated otherwise)

2007	Trademarks	Favourable lease and licence agreements	Licences for the use of Pizza Hut, and KFC trademarks	Other intangible assets	Total
Gross value					
As at 1/1/2007	0	9 465	16 315	9 058	34 838
Acquisitions	-	-	1 423	266	1 689
Increases	-	-	3 431	2 876	6 307
Decreases	-	-	(992)	(727)	(1 719)
Foreign exchange differences	-	-	(401)	(64)	(465)
As at 31/12/2007	0	9 465	19 776	11 409	40 650
Accumulated amortization					
As at 1/1/2007	0	4 238	11 410	6 260	21 908
Increases	-	2 865	1 848	1 485	6 198
Decreases	-	-	(962)	(342)	(1 304)
Foreign exchange differences	-	-	(143)	(35)	(178)
As at 31/12/2007	0	7 103	12 153	7 368	26 624
Impairment write-downs					
As at 1/1/2007	0	0	101	0	101
Increases	-	-	(30)	-	(30)
Decreases	-	-	-		-
Foreign exchange differences	-	-	-	-	-
As at 31/12/2007	0	0	71	0	71
Net value as at 1/1/2007	**0**	**5 227**	**4 804**	**2 798**	**12 829**
Net value as at 31/12/2007	**0**	**2 362**	**7 552**	**4 041**	**13 955**

Other intangible assets cover mainly computer software.

There are no intangible assets created internally and capitalized by the Group.

The amortization was charged to the costs of restaurant operations – PLN 3 136 thousand (prior period: - PLN 5 712 thousand) and administrative expenses - PLN 825 thousand (prior period: PLN 486 thousand).

(in PLN thousands unless stated otherwise)

10 Goodwill

The table below presents changes in the value of goodwill:

	12’2008	12’2007
Gross value		
At the beginning of the period	142 475	23 516
Increases	121 152	122 501
Decreases	-	-
Foreign exchange differences	37 001	(3 542)
At the end of the period	300 628	142 475
Impairment write-downs		
At the beginning of the period	-	-
Increases	-	-
Decreases	-	-
Foreign exchange differences	-	-
At the end of the period	-	-
Net book value as at the beginning of the period	142 475	**23 516**
Net book value as at the end of the period	**300 628**	**142 475**

Acquisitions in prior years

Goodwill of PLN 18 666 thousand (PLN 18 700 thousand as at 31 December 2008 after increasing by foreign exchange gains of PLN 34 thousand) relates to the acquisition of AmRest Restaurants Kft in June 2006 (previous name: Kentucky System Kft). Goodwill of PLN 4 819 thousand (PLN 5 611 thousand as at 31 December 2008 after being increased by foreign exchange gains of PLN 792 thousand) relates to the acquisition of miklik’s food s.r.o. in May 2005, whereas goodwill of PLN 127 651 thousand (PLN 120 507 thousand as at 31 December 2008 after increasing by foreign exchange gains of PLN 7 144 thousand) relates to gaining control over OOO Pizza Nord operating in Russia, in July 2007.

Current acquisitions

The table below shows acquisitions made in 2008:

	12'2008
RostiksKFC	28 373
Chicken Food	11 649
AppleGrove Holdings, LLC	81 130
	121 152

Goodwill of PLN 25 146 thousand relates to the acquisition of 9 RostiksKFC restaurants (Note 2). Goodwill of PLN 3 227 thousand relates to the acquisition of 5 RostiksKFC restaurants (Note 2) (PLN 23 936 thousand) . as at 31 December 2008 after deducting foreign exchange losses of PLN 4 801 thousand). Goodwill of PLN 11 649 thousand relates to the acquisition of 4 RostiksKFC restaurants (Note 2).

(in PLN thousands unless stated otherwise)

Goodwill of PLN 81 130 thousand (PLN 114 962 thousand as at 31 December 2008 after increasing by foreign exchange gains of PLN 33 832 thousand) relates to the acquisition of Apple Grove Holdings in the USA (Note 2).

Impairment testing

As at 31 December 2008, the Group conducted goodwill impairment tests with respect to the acquisitions of businesses in Hungary, Russia and the USA.

Individual restaurants constitute cash generating units on the Hungarian, Russian and American markets. However, goodwill is allocated to groups of restaurants acquired in particular countries.
Groups of cash generating units are consistent with the segment accounting policies adopted in accordance with IAS 14. The recoverable value of the cash generating units is based on calculations of their value in use. The calculation uses expected future cash flows assessed on the basis of historical results and expectations as to the development of the market in the future included in the business plan.

The discount rate before tax was used to discount expected future cash flows. It amounted to approximately 11.6%. The budgeted average EBITDA margin for the 3 following years was assumed at a level of 9.2%, 13.0% and 5.0%, for Hungary, Russia and the USA respectively. The expected long-term growth rate used for the calculation of planned future results was 2.5%, 3.0% and 0.5%, for Hungary, Russia and the USA respectively. Expected future cash flows are analyzed in the perspective of the following 10 years. The length of the period results mainly from the long-term nature of the franchise agreements and the long-term nature of investments in the restaurant business.

11 Other non-current assets

As at 31 December 2008 and 2007, the balances of other non-current assets were as follows:

	12'2008	12'2007
Prepaid rental fees	11 295	11 753
Receivables from the prior owner of OOO Pizza Nord – operating lease agreement	22 087	16 562
Prepayments from the prior owner of OOO Pizza Nord – operating lease agreement	9 272	10 600
Deposits in respect of rentals	8 366	8 250
Other	6 339	787
	57 359	47 952

12 Inventories

As at 31 December 2008 and 2007, inventories cover mainly food and packaging used in the restaurants. Inventories are presented net of inventory write-downs. Inventory write-downs as at 31 December 2008 and 2007 amounted to PLN 795 thousand. No new inventory write-downs were recorded in the income statement for the year ended 31 December 2008.

13 Trade and other receivables

	12'2008	12'2007
Trade receivables from non-related entities	27 300	12 628
Trade receivables from related entities (Note 30)	1 150	56
Receivables from Michael Tseytin (acquisition of OOO AmRest Pizza Nord) (Note 2)	21 591	17 756

(in PLN thousands unless stated otherwise)

Receivable from Steve Grove (acquisition of AppleGrove Holdings LLC)(Note 2)	711	-
Other tax receivables	10 224	6 041
Other	8 754	1 595
Write-downs of receivables (Note 32)	(3 568)	(3 587)
	66 162	34 489

14 Other current assets

	12'2008	12'2007
Prepaid costs in respect of deliveries of utilities	3 577	2 866
Prepaid lease costs	3 474	4 760
Prepaid property insurance	294	187
Other	4 918	3 808
	12 263	11 621

15 Cash and cash equivalents

Cash and cash equivalents as at 31 December 2008 and 2007 are presented in the table below:

	12'2008	12'2007
Cash at bank	26 270	36 182
Cash in hand	11 314	10 691
	37 583	46 873

16 Assets held for sale

In May 2007, the sale of a building located in Poland in which the Group operated a restaurant was finalized for the amount of PLN 4 000 thousand.

The table below presents a calculation of the gain on the sale of property, plant and equipment classified as non-current assets held for sale.

	12'2008	12'2007
Sales of assets held for sale	-	4 000
Net value of assets held for sale sold	-	(3 861)
Gains on sale of non-financial assets and assets held for sale	-	139

Non-current assets held for sale were from the "Poland" segment.

As at 31 December 2008 and 2007, the Group did not have non-current assets held for sale.

17 Equity

Share capital

As described in Note 1a. On 27 April 2005, the shares of AmRest Holding N. V. were floated on the Warsaw Stock Exchange ("GPW").

As at 31 December 2008, the Company held 14 186 356 issued, fully paid-up shares. The Company's target capital is 15 000 000 shares.

(in PLN thousands unless stated otherwise)

On 9 May 2008, 15 750 new Company shares were registered. The issuance of the shares was related to the realization of the employee share plan (Note 20). The nominal value of the issued shares amounted to PLN 1 thousand. The share premium amounted to PLN 1 409 thousand.

Holders of ordinary shares are authorized to receive dividend and have voting rights at the Group's General Shareholders' Meetings proportionate to their holdings.

Other supplementary capital

Other supplementary capital of PLN 6 191 thousand relates to non-refundable additional contributions to capital without additional issuance of shares made by the Group's shareholders before their debut on the GPW.

Foreign exchange differences on translation

Foreign exchange differences on translation cover all the foreign exchange differences resulting from the translation of the financial statements of the Company's foreign operations into Polish zloties.

Foreign differences on translation reflected in the capital were recognized on the following items:

	12'2008
Foreign exchange differences on translation arising in respect of goodwill	(37 001)
Foreign exchange differences on elimination of borrowings treated as net investments on consolidation	3472
Foreign exchange differences on translation of other financial items to the presentation currency	8 779
	(24 750)

18 Borrowings

Borrowings as at 31 December 2008 and 2007 are presented in the table below:

Long-term	12'2008	12'2007
Bank loans	391 934	124 146
	391 934	124 146

Short-term	12'2008	12'2007
Bank loans	40 536	38 552
	40 536	38 552

Bank loans

		Effective interest rate	12'2008	12'2007
In PLN	ABN Amro	6.75%	337 195	77 000
In CZK	ABN Amro	4.75%	69 514	69 810
In RUB	Raiffaisen Bank	8.70%	6 335	5 300
In RUB	OAO FDC	12.50%	-	10 588
In USD	WCM Investors	6.50%	19 426	-
			432 470	162 698

(in PLN thousands unless stated otherwise)

Bank loans comprise mainly investment loans bearing a variable interest rate based on reference rates WIBOR, PRIBOR, LIBOR and RIBOR. Exposure of the loans to interest rate risk and contractual dates for changing the interest rates occur in 3-month cycles (for PRIBOR and WIBOR) and monthly cycles (for LIBOR and RIBOR).

On 15 December 2008, a credit agreement was signed between Amrest Holdings SE, AmRest Sp. z o.o. and American Restaurants s.r.o. ("Borrowers") and ABN AMRO Bank (Polska) S.A., ABN AMRO Bank N.V., Bank Polska Kasa Opieki S.A. and Bank Zachodni WBK S.A. Under the above-mentioned agreement the Group was granted a loan amounting to PLN 440 million. The loan should be repaid by 31 December 2010. It covers two tranches and is earmarked for repayment of liabilities resulting from the credit agreement with ABN Amro Bank N.V. dated 4 April 2005 and further financing of the development of AmRest. All the Borrowers are jointly and severally responsible for discharging the obligations resulting from the credit agreement. Additionally, two Group companies – OOO AmRest and AppleGrove Holdings, LLC – granted guarantees to the financing banks. These companies guarantee that the Borrowers will discharge their obligations following from the credit agreement until the loan is repaid.

The Group is obliged to maintain specific financial ratios at a level specified in the agreement. This includes net gearing (net debt to annualized EBITDA), interest coverage ratio and balance sheet structure ratio (net asset ratio defined as consolidated net capital per the shareholders of the Parent company divided by the balance sheet total). As at 31 December 2008, the above ratios were not exceeded.

The effective interest rates are similar to the market rates for specific borrowings. Therefore, the fair value of the liabilities presented above does not differ significantly from their carrying amounts.

The maturity break-down of long- and short-term borrowings as at 31 December 2008 and 2007 is presented in the table below:

	12'2008	12'2007
Up to 1 year	40 536	38 552
Between 1 and 2 years	372 508	55 927
Between 2 and 5 years	19 426	64 552
More than 5 years	-	3 667
	432 470	162 698

The Group has the following unused, awarded credit limits as at 31 December 2008 and 2007:

	12'2008	12'2007
With floating interest rate		
- expiring within one year	16 322	14 489
- expiring beyond one year	48 951	57 000
	65 273	71 489

Additionally, the Group has an active AmRest corporate bond plan in the total amount of PLN 300 million. As at 31 December 2008, the available limit under this plan was PLN 290 million.

19 Other financial liabilities

In July 2008, AmRest Sp. z o.o. signed a bond issue agreement with ABN Amro Bank (Polska) S.A.. On the basis of the agreement an AmRest corporate bond issue plan was launched enabling issuance of short and medium term bonds with a total value of PLN 300 million.

As at 31 December 2008, the Group had total liabilities in respect of bonds issued of PLN 9 817 thousand (Note 23). They relate to 100 bonds with a nominal value of PLN 100 thousand each, which mature on 31 March 2009. The average issue price of the bonds was PLN 98 166.34 thousand, and the effective interest rate was 7.40%.

On 31 March 2009, the above-mentioned bonds matured and the Group redeemed them all.

20 Liabilities in respect of wages and salaries, and employee benefits

Long-term employee benefits dependent on their years in service

In accordance with the terms and conditions of the collective labour agreement, a specific group of employees is entitled to receive long-service bonuses depending on their years in service. The entitled employees receive a one-off amount of USD 300 after five years in service, and USD 1 000 after 10 years in service, translated in both cases into the currency of the given country. The Group provided for these long-service bonuses in the amount of PLN 1 520 thousand as at 31 December 2008 and PLN 1 221 thousand as at 31 December 2007. The actuarial assumptions adopted for the valuation assume a discount rate of 5.5% and the expected turnover of employees at an annual level of 40% in 2008.

Employee share option plan 1

The Plan was launched in 1999 as a cash-settled plan and covered the key employees of the Group. Upon the Group's flotation on the GPW – on 27 April 2005 – the plan was modified to be share-based instead of cash-based. Additionally, all the obligations in respect of the plan were taken over by ARC (Note 1a). ARC assumed responsibility for the redemption of all the units (which could already be and which could not yet be exercised). The carrying amount of the liability as at that date of PLN 1 944 thousand was charged to capital.

Employee share option plan 2

In April 2005, the Group implemented another Employee Option Plan which is share-based, thinking of its key employees. The whole number of shares which are attributed to the options is determined by the Management Board, however, it may not exceed 3% of all the outstanding shares. Moreover, the number of shares purchased by employees through exercising options is limited to 200 000 per annum. In accordance with the provisions of the Plan, the Group, following approval by the Management Board, is entitled to determine, apart from other issues, the employees authorized to participate in the Plan and the number of options granted and the dates for their granting. The option exercise price will be in principle equal to the market price of the Company's shares as at the date of awarding the option, and the vesting period will be 3 to 5 years. The Employee Option Plan was approved by the Company's Management Board and the General Shareholders' Meeting.

(in PLN thousands unless stated otherwise)

The terms and conditions for the share options awarded to employees are presented in the table below:

Award date	Number of share options awarded	Terms and conditions for exercising the options	Option exercise price in PLN	Options term to maturity period
Plan 1				
30 April 1999	75 250	5 years, gradually, 20% per annum	6.4	10 years
30 April 2000	53 750	5 years, gradually, 20% per annum	25.6	10 years
30 April 2001	76 300	5 years, gradually, 20% per annum	25.6	10 years
30 April 2002	74 600	5 years, gradually, 20% per annum	16.0	10 years
30 April 2003	55 100	5 years, gradually, 20% per annum	16.0	10 years
30 April 2004	77 800	5 years, gradually, 20% per annum	19.2	10 years
Total	412 800			
Plan 2				
30 April 2005	79 300	5 years, gradually, 20% per annum	24.0	10 years
30 April 2006	75 000	5 years, gradually, 20% per annum	48.4	10 years
30 April 2007	89 500	5 years, gradually, 20% per annum	96.5	10 years
30 April 2008	105 250	5 years, gradually, 20% per annum	86.0	10 years
12 June 2008	21 000	5 years, gradually, 20% per annum	72.5	10 years
Total	370 050			

In the table below we present the number and weighted average of the exercise price of the options from both plans for the twelve-month period ended 31 December 2008 and 2007.

	2008			2007		
	Weighted average option exercise price	Number of options Plan 2	Number of options Plan 1	Weighted average option exercise price	Number of options Plan 2	Number of options Plan 1
At the beginning of the period	PLN 42.3	210 780	131 200	PLN 26.9	151 400	182 200
Utilized during the period	PLN 31.5	(15 750)	-	-	-	(17 800)
Redeemed during the period	PLN 73.9	(6 060)	-	PLN 29.4	(29 770)	(33 200)
Awarded during the period	PLN 83.8	126 250	-	PLN 96.5	89 150	-
At the end of the period	PLN 56.1	315 220	131 200	PLN 42.3	210 780	131 200
Available for exercising as at the end of the period	PLN 30.7	86 510	128 200	PLN 22.2	45 770	123 380

The fair value of the work performed in consideration for the options issued is measured using the fair value of the options awarded. The estimated fair value of the benefits is measured using the trinomial model and a model based on the Monte-Carlo method. One of the input data used in the above model is the term to maturity of the options (10 years). The possibility of early exercising of the option is taken into consideration in the trinomial model.

(in PLN thousands unless stated otherwise)

The fair value of the options as at the moment of awarding was determined on the basis of the following parameters:

	Awarded in the period from 1/1/2008 to 31/12/2008	Awarded in the period from 1/1/2007 to 31/12/2007	Awarded in the period from 1/1/2006 to 31/12/2006	Awarded in the period from 1/1/2005 to 31/12/2005		Awarded until the end of 2004
	Plan 2	Plan 2	Plan 2	Plan 2	Plan 1	Plan 1
Average fair value of option as at the date of award	PLN 29.81	PLN 36.09	PLN 15.5	PLN 8.9	PLN 6.8	PLN 6.6
Average price of share at the date of measurement/award	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 fluctuations of share prices (expressed as the weighted average fluctuation in share prices used in the trinomial model)*	37%	33%	31%	40%	40%	40%
Expected term to maturity of the options (expressed as the weighted average period to maturity of the options used in the trinomial model)	8.9 years	9.9 years	9.9 years	9.9 years	7.0 years	7.5 years
Expected dividend (as of 2008)	18.8%	18.8%	18.8%	18.8%	19.4%	19.4%
Risk-free interest rate (based on Treasury bills)	5.8%	5.5%	4.98%	4.5%	4.5%	5.8%

* In connection with the fact that before 2006 the Company was not listed on the GPW, the expected fluctuations in the prices of its shares for measuring awards from before 2006 were based on the historical fluctuations of share prices of comparable companies quoted on the GPW (calculated on the basis of the weighted average time to maturity of the options), adjusted by all the expected changes in the future fluctuations of the share prices resulting from published information on the Company. Estimates for awards from 2006 were based on the actual fluctuations in the Company's quoted share prices. High actual fluctuation in share prices is the effect of a significant increase in the Company's share prices from their flotation.

Options are awarded after the terms and conditions relating to the period of employment have been met. The Plan does not provide for any additional market conditions on which the exercising of the options would depend.

The costs recognized in connection with the plans relating to share-based payments for the period of twelve months ending on 31 December 2008 and 2007 respectively are presented below:

	2008	2007
Value of employee services	2 406	1 433
	2 406	1 433

(in PLN thousands unless stated otherwise)

Retirement benefit contributions

The costs recognized in connection with the retirement benefit contributions for the period of twelve months ending on 31 December 2008 and 2007 respectively are presented below:

	2008	2007
Retirement benefit contributions	40 847	31 291
	40 847	31 291

Apart from those specified above, there are no other liabilities in respect of employee benefits.

21 Provisions

Changes in the balance of provisions are presented in the table below:

31 December 2008	As at 01.01.2008	Increases	Utilization	Releases	Foreign exchange differences	As at 31/12/2008
Onerous contracts	5 190	1 414	(1 838)	(151)	217	4 832
Provision for court fees	697	0	0	0	0	697
	5 887	1 414	(1 838)	(151)	217	5 529

31 December 2007	As at 01.01.2007	Increases	Utilization	Releases	Foreign exchange differences	As at 31.12.2007
Onerous contracts	3 322	3 957	(869)	(1 185)	(35)	5190
Provision for court fees	2 243	-	(1 418)	(128)	-	697
	5 565	3 957	(2 287)	(1 313)	(35)	5 887

Provision for onerous contracts

As at the balance sheet date, the Group showed a provision for onerous lease contracts. These contracts relate to most locations in which the Group does not engage in restaurant operations but only subleases the premises to other entities on unfavourable terms. The provision was calculated using the 10.9% discount rate. The increase in the discount rate of 10 % (from 10.9% to 12%) would result in a decrease in the provision of PLN 9 thousand.

Provision for court fees

Periodically, the Group is involved in disputes and court proceedings resulting from the Group's on-going operations. As presented in the table above, as at the balance sheet, the Group showed a provision for the costs of court proceedings which reflects the most reliable estimate of the probable losses expected as a result of the said disputes and legal proceedings.

(in PLN thousands unless stated otherwise)

22 Other non-current liabilities

Other non-current liabilities cover mainly the long-term portion of deferred income in respect of advertising services provided to one of the Group's suppliers (a non-related entity). The current portion of those liabilities is shown in Note 23. In the prior periods, the Group received a fee of USD 817 thousand in respect of advertising services provided within five years of 1 January 2006. Deferred income in this respect amounted to PLN 1 014 thousand and PLN 1 172 thousand respectively as at 31 December 2008 and 2007.

23 Trade and other payables

Trade and other payables as at 31 December 2008 and 2007 cover the following items:

	12'2008	12'2007
Payables to non-related entities, including:	236 944	94 362
Trade payables	97 587	60 859
Payables in respect of uninvoiced lease fees and deliveries of food	19 210	10 644
Employee payables	19 707	7 518
Social insurance payables	6 065	4 566
Other tax payables	15 349	4 127
Bond liabilities	9 817	-
Put option liabilities	33 818	-
Gift voucher liabilities	10 917	-
Liabilities in respect of acquisitions executed	11 649	-
Other payables to non-related entities	12 824	6 648
Liabilities to related entities (Note 30)	1 271	1 120
Accruals, including:	30 465	14 622
Employee bonuses	7 206	4 386
Marketing services	2 561	986
Holiday pay accrual	5 277	5 688
Professional services	847	2 191
Costs of professional services related to the acquisitions	-	849
Franchise fees	5 082	-
Lease cost provisions	3 220	-
Onerous contracts - PEPSI	4 103	-
Other	2 169	522
Deferred income – short-term portion	668	1006
Social fund	294	417
	269 642	111 527

(in PLN thousands unless stated otherwise)

24 Finance lease liabilities

Financial lease liabilities – current portion:

	2008	2007
Payable within 1 year	597	1 442
Payable from 1 to 5 years	887	1 342
Payable after 5 years	3 137	2 818
	4 621	5 602

Finance lease liabilities – minimum lease payments:

	2008	2007
Payable within 1 year	1 314	2 154
Payable from 1 to 5 years	2 863	3 685
Payable after 5 years	5 908	5 570
Total minimum lease payments	10 085	11 409
Future finance costs in respect of finance leases	(5 465)	(5 807)
Present value of finance lease liabilities	4 621	5 602

25 Operating leases

The Group concluded many irrevocable operating lease agreements, mainly relating to leases of restaurants. In respect of restaurants, lease agreements are concluded on an average for a period of 10 years and require a minimum notice period on termination.

The expected minimum lease fees relating to operating leases without the possibility of earlier notice are presented below:

	2008	2007
Payable within 1 year	118 096	44 354
Payable from 1 to 5 years	582 226	228 097
Payable after 5 years	840 761	85 589
Total minimum lease payments	1 541 084	358 041

In respect of many restaurants (especially those in shopping malls) lease payments comprise two components: a fixed fee and a conditional fee depending on the restaurant's revenues. The conditional fee usually constitutes from 2.5% to 9% of a restaurant's revenue. Lease costs relating to operating leases (broken down by the fixed and conditional portion) for the 12 months of 2008 and 2007 are as follows:

(in PLN thousands unless stated otherwise)

	2008			2007		
	Fixed fee	Conditional fee	Total	Fixed fee	Conditional fee	Total
Czech Republic	17 974	2 449	20 423	13 658	2 361	16 019
Hungary	4 414	318	4 732	3 499	346	3 845
Poland	29 409	23 854	53 263	21 421	13 080	34 501
Russia	20 882	581	21 463	9479	251	9 730
Bulgaria	1 229	-	1 229	353	-	353
Serbia	421	-	421	97	-	97
USA	23 425	258	23 682	-	-	0
	97 754	27 460	125 214	48 507	16 038	64 545

The Group is also party to sublease agreements on the basis of operating leases. Income from sublease fees on the basis of operating leases for the 12 month periods of 2008 and 2007 are as follows:

	2 008	2 007
Russia	238	-
Czech Republic	81	81
Hungary	42	49
Poland	2 057	1 618
	2 418	1 748

26 Collateral on borrowings

The loans incurred by the Company do not account for collateral set up on fixed assets and other assets owned by the Company. The Borrowers (AmRest Sp. z o.o. and American Restaurants s.r.o.) are jointly and severally responsible for paying the liabilities resulting from credit agreements. Additionally, two Group companies – OOO AmRest and AppleGrove Holdings, LLC – granted guarantees to the financing banks. These companies guarantee that the Borrowers will discharge their obligations following from the credit agreement until the loan is repaid, i.e. 31 December 2010.

27 Earnings per share

The basic and diluted earnings per ordinary share for the 12-month period of 2008 and 2007 was calculated as follows:

	2008	2007
Net profit attributable to equity holders of the parent company	24 123	48 855
Ordinary share as at 1 January	14 180 013	13 500 000
Impact of share issuance	1 640	336 227
Impact of share options awarded in 2005	45 952	59 678
Impact of share options awarded in 2006	22 090	36 293
Impact of share options awarded in 2007	-	-
Impact of share options awarded in 2008	-	-
Weighted average number of ordinary shares	14 249 694	13 932 198
Basic earnings per ordinary share	1.70	3.62
Diluted earnings per ordinary share	1.69	3.51

The impact of the potential appearance of ordinary shares following the share options granted is slightly dilutive.

(in PLN thousands unless stated otherwise)

28 Future commitments and contingent liabilities

In accordance with the franchise agreements signed, the Group is obliged to periodically improve the standard, modify, renovate and replace all or parts of its restaurants or their installations, marking or any other equipment, systems or inventories used in restaurants to make them compliant to the current standards. The agreements require no more than one thorough renovation of all installations, markings, equipment, systems and inventories stored in the back of each restaurant to comply to the current standards, as well as no more than two thorough renovations of all installations, markings, equipment, systems and inventories stored in the dining rooms of each of the restaurants during the period of a given franchise agreement or the period of potential extension of the agreement. The expenses for the purpose forecast by the Group amount to ca. 1.5% of annual sales form the restaurants' operations in the future periods.

Other future commitments resulting from the agreements with the Burger King, Starbucks and Applebee's and the current and future franchise agreements were described in Note 1 (a) and Note 1 (f).

29 Investments in associates

Changes to the value of investments in associates in consecutive periods are presented in the table below:

	12 months to 31 December 2008	12 months to 31 December 2007
At the beginning of the period	2 353	1 221
Purchase of shares	60 802	-
Share in profits and losses of associates	(15 081)	1 132
Impairment of the value of shares	(10 349)	
Foreign exchange differences	-	-
Balance as at the end of the year	37 725	2 353

The Group's share in associates and the basic financial data of the entities are as follows:

Name of associate	Country of registration	Assets	Liabilities	Revenues	Profit/ (Loss)	Shares held (%)
31 December 2008						
Worldwide Communication Services LLC	USA	265	79	-	-	33.33
Global Communication Services Sp. z o.o. in liquidation	Poland	55	107	-	-	33.33
Synergy Marketing Partners Sp. z o.o.	Poland	22	0	-	-37	26.66
Red 8 Communications Group Sp. z o.o.	Poland	5 671	3 042	16 161	507	17.33
Synergy Marketing Partners s.r.o.	Czech Republic	21	0	168	0	24.00
SCM Sp. z o.o.	Poland	6 649	1 316	6 810	1 445	45.00
SCM s.r.o.	Czech Republic	405	124	654	111	40.50
Sfinks Polska S.A.	Poland	151 148	136 145	-	(48 060)	32.99

(in PLN thousands unless stated otherwise)

Name of associate	Country of registration	Assets	Liabilities	Revenues	Profit/ (Loss)	Shares held (%)
31 December 2007						
Worldwide Communication Services LLC	USA	145	79	-	(6)	33.33
Global Communication Services Sp. z o.o. in liquidation	Poland	31	107	-	(19)	33.33
Synergy Marketing Partners Sp. z o.o.	Poland	127	71	2 733	6	26.66
Red 8 Communications Group Sp. z o.o.	Poland	5 287	2 095	16 027	1 962	17.33
Synergy Marketing Partners s.r.o.	Czech Republic	21	0	168	9	24.00
SCM Sp. z o.o.	Poland	4 193	305	5 443	1 671	45.00
SCM s.r.o.	Czech Republic	188	79	425	109	40.50

As at 31 December 2008, investments in Sfinks Polska S.A. were measured on the basis of their market value and impairment in the value of the shares of PLN 10 349 thousand was disclosed.

30 Transactions with related entities

Trade and other receivables from related entities

	31 December 2008	31 December 2007
MPI Sp. z o.o.	845	34
ARC	182	
American Retail Systems Sp. z o.o.	-	3
Associates	123	19
	1 150	56

Trade and other payables to related entities

	31 December 2008	31 December 2007
ARC	-	524
MPI Sp. z o.o.	659	-
American Retail Systems Sp. z o.o.	-	271
Associates	612	325
	1 271	1 120

(in PLN thousands unless stated otherwise)

Sales of goods for resale and services

	12 months ended 31 December 2008	12 months ended 31 December 2007
MPI Sp. z o.o.	693	8
ARC	147	-
American Retail Systems Sp. z o.o.	11	103
Associates	129	83
	970	194

Purchase of goods for resale and services

	12 months ended 31 December 2008	12 months ended 31 December 2007
MPI Sp. z o.o.	2 786	285
ARC	2 524	3 816
American Retail Systems Sp. z o.o.	1 662	1 841
Associates	2 990	5 261
	9 962	11 203

Other related entities

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

In accordance with the description in Note 1(a), as at 31 December 2008, ARC and its subsidiaries – IRI, American Retail Systems Sp. z o.o. are treated as related entities, as at 31 December 2007 Metropolitan Properties International Sp. z o.o. was a company owned by Mr Henry McGovern. On 14 March 2008, companies owned by Henry McGovern merged. The merger was effected by transferring all the assets of the acquired company, i.e. American Retail Systems Sp. z o.o. to the acquirer, i.e. Metropolitan Properties International Sp. z o.o.

The following people founded ARC: Donald M. Kendall, Sr., Donald M. Kendall, Jr., Christian R. Eisenbeiss and Henry J. McGovern. Donald M. Kendall, Sr., Donald M. Kendall, Jr. and Henry J. McGovern were members of the Supervisory Board of AmRest Holdings SE as at 31 December 2008.

The ownership structure of ARC as at 31 December 2008 is as follows:

	Percentage 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%

Management and advisory services were also provided by ARC to the Czech and Polish entities of the Group. The main duty of ARC is the provision of management services including payment of wages and salaries and other expenses to some members of the Management Board and other key employees of the Group. The Group’s subsidiaries receive monthly invoices in respect of the above wages and salaries. The value of fees paid by the Group and its subsidiaries in this respect was PLN 2 524 thousand and PLN 3 816 thousand respectively for 12 months ending on 31 December 2008 and 2007 respectively.

Additionally, in 2008, the Group set up a provision of PLN 1 599 thousand for the expected costs related to the management services provided by ARC (31 December 2007: PLN 1 330 thousand).

As of 27 April 2005 only ARC is responsible for compensation and meeting all the Company's future commitments in connection with the plan of share-based payments for the Company's employees (Note 20).

Metropolitan Properties International Sp. z o.o. (after merging with American Retail Systems Sp. z o.o.) is involved in operations related to real estate. The Group leases seven restaurants from Metropolitan Properties International Sp. z o.o. on the terms and conditions similar to the lease agreements concluded with non-related entities.

As at 31 December 2008, the Group showed a prepayment of PLN 9 230 thousand in its consolidated financial statements. The prepayment was made in 2005 on behalf of ARS in connection with the conclusion of a lease agreement for 4 restaurants for a period of 10 years beginning in 2007.

The lease and other costs incurred by the Group and its subsidiaries on behalf of ARS (from the moment of the merger) amounted to PLN 1 662 thousand and PLN 1 842 thousand respectively for the 12 months ended 31 December 2008 and 2007.

Lease fees and other fees paid to MPI amounted to PLN 2 786 thousand and PLN 285 thousand respectively in the twelve month periods ending 31 December 2008 and 31 December 2007.

The Group's liabilities in respect of those transactions as at 31 December 2008 and 2007 amounted to PLN 783 thousand and PLN 271 thousand respectively

As at 31 December 2008, Bank Zachodni WBK AIB Asset Management was the largest shareholder of AmRest and held 20.24% of its shares and voting rights, and as such was its related entity. Bank Zachodni WBK S.A. is a shareholder of Bank Zachodni WBK AIB Asset Management.

On 15 December 2008, a credit agreement was signed between Amrest Sp. z o.o. and American Restaurants s.r.o. ("the Borrowers") and ABN AMRO Bank (Polska) S.A., ABN AMRO Bank N.V., Bank Polska Kasa Opieki S.A. and Bank Zachodni WBK S.A.

Under the above-mentioned credit agreement dated 15 December 2008, BZ WBK granted the Group a loan amounting to PLN 120 million. The loan should be repaid by 31 December 2010.

Additionally, the Group has lease agreements with BZ WBK S.A. for scooters concluded on 12 June 2006 for three years and incurred costs of PLN 152 thousand in this respect for the period of twelve months ended 31.12.2008.

As at 31 December 2008, AppleGrove Holdings LLC had a loan of PLN 19 426 thousand from WCM Investors, LLC a company related to Steve Grove, owner of 20 % of shares in AppleGrove Holdings LLC.

Associates

Worldwide Communication Services LLC

Worldwide Communication Services LLS and its related entities (WCS) provided marketing services to the Group until the end of March 2007. This is related to beginning an internal Marketing Department at the beginning of 2007. The fees for the marketing services provided (mainly through a subsidiary of WCS – Synergy Marketing Partners Sp. z o.o., Synergy Marketing Partners s.r.o.) amounted to PLN 612 thousand and PLN 3 839 thousand respectively for the twelve months of 2008 and 2007 respectively.

Transactions with the management/Management Board, Supervisory Board

Remuneration of the Management and Supervisory Boards

The remuneration of the Management Board of AmRest Holdings SE paid by ARC and directly by the Group was as follows:

(in PLN thousands unless stated otherwise)

	12 months ended 31 December 2008	12 months ended 31 December 2007
Remuneration of the Management Board Members paid by ARC	1 044	40
Remuneration of the members of the Management and Supervisory Boards paid directly by the Group	1 416	2 406
Total remuneration paid to the Management Board and Supervisory Board	2 460	2 446

ARC also pays remuneration to other key employees of the Group (apart from the Management Board, later reinvoiced to the Group). In the 12-month period ended 31 December 2008 total remuneration amounted to PLN 1 245 thousand (in the same period of the prior year: PLN 3 815 thousand).

The Group's key employees also participate in an employee share option plan (See Note 20). The costs relating to the employee option plan in respect of management amounted to PLN 275 thousand and PLN 222 thousand respectively in the 12 month period ended 31 December 2008 and 2007.

	31 December 2008	31 December 2007
Number of options awarded	156 500	131 000
Number of available options	115 450	102 800
Fair value of options as at the moment of awarding	PLN 2 254 894	PLN 1 415 000

As at 31 December 2008, there were no liabilities to former employees.

31 Critical accounting estimates, and judgements

Key sources of uncertainties relating to estimates

Estimates and judgements are continually verified, 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 are exposed to a significant risk of introducing a significant adjustment of the carrying amount of assets and liabilities during another financial year relate mainly to the impairment tests in respect of property, plant and equipment and goodwill, amortization and depreciation, provisions and calculation of deferred tax.

Estimated impairment of goodwill

The Group tests goodwill for impairment in accordance with its accounting policies described in Note 1n. The recoverable value of a cash generating unit is determined on the basis of the calculation of its value in use (Note 10). No goodwill impairment was recognized as at 31 December 2008 and 2007.

Estimated impairment of property, plant and equipment

Estimated depreciation charges

Increasing the average useful lives of property, plant and equipment by 10% would lead to a decrease in depreciation for the 12-month period ended 31 December 2008 of ca. PLN 6 277 thousand.

(in PLN thousands unless stated otherwise)

Provisions

Key uncertainties and estimates are described in Note 21.

Deferred income tax

Uncertainties and estimates related to deferred tax relate mainly to recognizing a deferred tax asset in respect of unused tax losses carried forward. See Note 8.

Critical accounting judgements

Critical accounting judgements relate to the classification of leases – see Notes 24 and 25 and recognizing deferred tax on tax loss carryforwards – Note 8.

32 Financial instruments

The Group is exposed to several financial risks in connection with its activities, including: the risk of market fluctuations (covering the foreign exchange risk and risk of changes in interest rates), risk related to financial liquidity and – to a limited extent – credit risk. The risk management program implemented by the Group is based on the assumption of the unpredictability of the financial markets and is used to maximally limit the impact of negative factors on the Company's financial results.

Risk management is based on procedures approved by the Management Board.

Credit risk

Financial instruments especially exposed to credit risk include cash and cash equivalents, receivables and investments held to maturity. The Group invests cash and cash equivalents with highly reliable financial institutions. There is no significant concentration of credit risk in respect of trade and other receivables due to the fact that sales are based mainly on cash and credit card payments. The Group set up an additional impairment write-down of PLN 19 thousand for the Group's receivables exposed to credit risk in the 12 month period ended 31 December 2008. The maximum credit risk exposure amounts to PLN 83 252 thousand.

The ageing break-down of receivables and receivable write-downs as at 31 December 2008 is presented in the table below:

	current	overdue in days				**Total**
		less than 90	91 - 180	181 - 365	more than 360	
Trade and other receivables	28 873	5 438	6 008	3 180	26 232	**69 730**
Receivable write-downs	-	-	-	-	-3 568	**-3 568**
	28 873	**5 438**	**6 008**	**3 180**	**22 664**	**66 162**

The Group did not recognize impairment on overdue trade and other receivables of PLN 15 699 thousand because it believes that they will be recovered in full.

Interest rate risk

Bank borrowings drawn by the Group are most often based on fluctuating interest rates (see Note 18). As at 31 December 2008, the Group does not hedge against changes in cash flows resulting from interest rate fluctuations which have an impact on the results. The Group analyzes the market position relating to interest on loans in terms of potential refinancing of debt or renegotiating the lending terms and conditions. The impact of changes in interest rates on results are analyzed in quarterly periods.

(in PLN thousands unless stated otherwise)

Had the interest rates on loans denominated in Polish zloties during the 12 months ended 31 December 2008 been 30 base points higher/lower, the profit for the period would have been PLN 538 thousand lower/higher.

Had the interest rates on loans denominated in Czech korunas during the 12 months ended 31 December 2008 been 30 base points higher/lower, the profit for the period would have been PLN 203 thousand lower/higher.

Foreign exchange risk

The Group is exposed to foreign exchange risk related to transactions in currencies other than the currency in which the business operations are measured in particular Group companies. Foreign exchange risk results from future business transactions, recognized assets and liabilities. Moreover, lease payments related to a significant part of the Group's lease agreements are indexed to the exchange rate of the American dollar or the euro. Nevertheless, the Group is trying to sign lease agreements in local currencies whenever possible, but many landlords require that the lease payments be indexed to the euro or to the American dollar.

To limit foreign exchange risk, the Group is trying to reduce the impact of short-term fluctuations of exchange rates. However, in a longer period, permanent changes in exchange rates and interest rates could have an impact on the Company's consolidated results.

As at 31 December 2008 the Group used hedges limiting the impact of changes in cash flows following from changes in exchange rates on its results. The Group hedged its cash flows related to the planned raw material purchases. As at 31 December 2008, the total amount of open futures transactions amounted to EUR 10,000 thousand and GBP 1,500 thousand. The transaction will be settled in 2009. The valuation of the transactions as at the end of 2008 was positive and amounted to PLN 9,254 thousand. The hedging transactions described above were accounted for under hedge accounting.

As at 31 December 2008, the Group's assets and liabilities are denominated mainly in the functional currencies of the Group members.

Liquidity risk

Prudent financial liquidity management assumes that sufficient cash and cash equivalents are maintained and that further financing is available from guaranteed funds from credit lines.

The table below shows an analysis of the Group's financial liabilities which will be settled in net amounts in particular ageing brackets, on the basis of the term to maturity as at the balance sheet date. The amounts shown in the table constitute contractual, undiscounted cash flows.

The maturity break-down of long- and short-term borrowings as at 31 December 2008 and 2007 is presented in the table below:

	12'2008			12'2007		
	Loan instalments	Interest and other charges	Total	Loan instalments	Interest and other charges	Total
Up to 1 year	40 536	26 808	67 344	38 552	9 890	48 442
Between 1 and 2 years	372 508	24 870	397 378	55 927	13 226	69 153
Between 2 and 5 years	19 426	635	20 061	64 552	4 618	69 170
More than 5 years	0	0	0	3 667	70	3 737
	432 470	52 312	484 783	162 698	27 804	190 502

(in PLN thousands unless stated otherwise)

Capital risk

The Group manages capital risk to protect its ability to continue in operation, so as to enable it to realize returns for its shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce its cost.

The Group monitors capital using the gearing ratio. The ratio is calculated as net debt to the total value of capital employed. Net debt is calculated as the sum of borrowings (comprising loans and advances, and liabilities) net of cash and cash equivalents. The total value of capital is calculated as the carrying amount of equity in the consolidated financial statements plus net borrowings.

The Group's gearing as at 31 December 2008 and 2007 is as follows:

	12'2008	12'2007
Total borrowings (Note 18)	432 470	162 698
Less: Cash and cash equivalents (Note 15)	(37 583)	(46 873)
Net debt	394 887	115 825
Total equity	370 685	293 463
Capital employed	765 572	409 288
Gearing ratio	52%	28%

The increase in the gearing ratio as at 31 December 2008 results mainly from higher capital expenditure which was financed with external debt financing.

33 Events After the Balance Sheet Date

- On 29 January 2009, AmRest informed of increasing the capital of its subsidiary AmRest Coffee s.r.o. (AmRest Coffee Czech). The capital of AmRest Coffee s.r.o. was increased by a total amount of CZK 45 000 000 in the form of a cash contribution made by AmRest Sp. z o.o. and Starbucks Coffee International Inc. After the change, the ownership structure of the Company remained unchanged: AmRest Sp. z o.o. - 82%, Starbucks Coffee International Inc - 18%.
- On 24 March 2009 the contingent agreement for the sale of all shares in Sfinks Polska S.A. ("Sfinks") held by AmRest in the amount of PLN 30 465 thousand was finalized and in 2009 a loss was recognized of PLN 2 603 thousand.