AmRest Holdings N.V.

Annual Report 2006

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1. Company Profile

1.1. Key Services Provided by the Group

AmRest Holdings N.V. ("AmRest") operates KFC restaurants in Poland, the Czech Republic and Hungary, and Pizza Hut restaurants in Poland and Hungary. Moreover, since the first half of 2006, AmRest has operated FreshPoint restaurants in Poland and Rodeo Drive restaurants in Poland and the Czech Republic. Because the Ice*Land outlets form integral parts of selected KFC and Pizza Hut restaurants in Poland, starting from 2006 AmRest does not classify them as separate restaurants. In Q2 2007, AmRest plans to open the first Burger King restaurant in Poland. Thanks to its new brands, FreshPoint, Rodeo Drive and Burger King, the Company will diversify its services and guarantee customer satisfaction with its broad range of products.

AmRest restaurants feature services like dine-in, take-away, drive-through and home delivery. The Company's goal is to provide tasty food at competitive prices, while ensuring quality service. The AmRest restaurants' menu includes the proprietary items that are prepared from fresh products according to oryginal recipes and standards of KFC and Pizza Hut chains (and Burger King in the future), as well as on the basis of proprietary concepts (FreshPoint and Rodeo Drive).

The KFC and Pizza Hut brands are franchised to AmRest by Yum! Brands Inc. The Burger King restaurants will also be opened on the basis of a franchise agreement concluded with Burger King Europe GmbH. FreshPoint and Rodeo Drive are proprietary brands of AmRest, which means that the sales generated at those restaurants are not subject to franchise fees.

a) KFC and Pizza Hut

KFC is a quick service restaurant chain offering miscellaneous chicken meals, such as Hot&Spicy and Kentucky, as well as various fresh seasonal salads, biscuits and desserts, originally cooked corn, and hot and cold beverages. Chicken prepared by KFC is freshly marinated and breaded in store on a daily basis, which ensures the highest quality and supreme flavour of the served meals. In terms of revenue and number of restaurants, KFC AmRest is one of the largest restaurant chain operators in Central and Eastern Europe.

The KFC chain operated by AmRest seeks to strengthen its brand by offering not only chicken meals but also fresh salads, thus extending its offering and attracting new customers. This trend is continued by introducing new freshly prepared menu items.

The KFC's 2006 strategy was focused on the strengthening of the awareness of the high quality of the meals, prepared every day from freshly fried pieces of chicken as well as other meals sold as main course or side dishes. As a result of implementation of this strategy the menu was expanded to include sandwiches with innovative flavour combinations such as Pepper Longer, Pocket Exotic, PitaQura and Twister Atikos. The new Pikante salad was also added to the regular offering. All our products are prepared with an addition of fresh vegetables and pieces of chicken.

In 2006, all KFC restaurants switched to freshly ground bean coffee always made to customer's order. Great emphasis was placed on the providing additional information on the nutritional value of the meals served by KFC.

Pizza Hut is one of the largest casual dining chains in Central and Eastern Europe, offering a wide range of various dishes in restaurants with waiter service. The Pizza Hut offer includes typical for this brand traditional pan pizzas and Italian thin-crust pizzas, salad bars "with no limits", ready-made salads, typical Italian pastas and lasagnes, tortillas and other main dishes, desserts, cold and hot drinks.

In 2006 Pizza Hut continued the realization of its product strategy based on "Pizza – Pasta – Salad". Including the above product groups Pizza Hut focused on offering the diversity realizing the assumption "Pizza and much more". According to the strategy the Pizza Hut menu was extended by the additions of Pizza Lasagna, wide offer of pastas, exotic offer of salad bar, new starters and desserts. Additionally the Pizza Hut offer has been extended by the addition of "big refill" of icetea and other cold drinks plus by the addition of freshly squeezed juices (orange and grapefruit) and a wide selection of Italian wines.

Pizza Hut is continuously searching for new ideas offering the "taste adventure" to its customers. The current actions will give the customers the wider choice and inimitable taste. The new line of a dozen or so types of pizza ("The Whole World in Pizza Hut") will enable the customers "the journay" to different cuisines from all around the world. Additionally the customers will have a chance to try a few different taste compositions by the possibility of combining the selected pasta with their favourite sauce ("Pasta Festival").

b) FreshPoint and Rodeo Drive

Despite encountering greater difficulties and delays than initially planned, AmRest continues the development of its new proprietary brands: FreshPoint and Rodeo Drive. The full evaluation of both projects will be possible after the appropriate scale of operations is reached (10 FreshPoint restaurants and 5 Rodeo Drive restaurants). However, we can already conclude that both brands have been well defined and positively received by customers – for instance, 76% of the customers of FreshPoint strongly declare their intention to visit one of the FreshPoint restaurants again in the future.

FreshPoint, AmRest's new sandwich chain, commenced operations in March 2006. 5 FreshPoint restaurants have been opened to date – all of them located in Warsaw. FreshPoint restaurants are designed for the customers who despite their busy lifestyles want to eat well. FreshPoint sandwiches are a fresher and healthier option of eating out. The FreshPoint offering includes various types of bread, fresh ingredients and a variety of sauces. All menu items are served in a convenient form to eat in or take out. The natural ingredients of the sandwiches and the ability to watch the process of preparing each sandwich in store guarantees the freshness of the FreshPoint sandwiches. The bread used to prepare sandwiches is fresh because it is baked on premises.

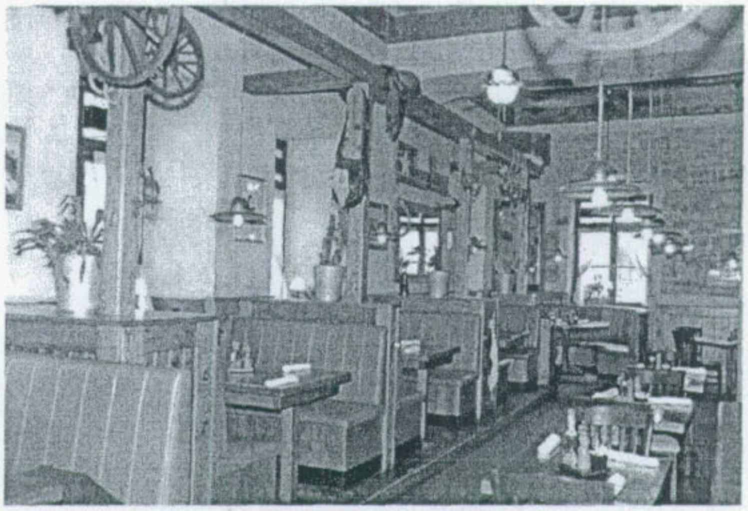
In H2 2006, the menu boards at the FreshPoint restaurants were re-designed. At the same time, the Company developed a consistent design and outdoor and indoor signage standard for the restaurants. Also in H2 2006, a new product category was introduced – low-cost sandwiches for the customers looking for value-for-money. In March 2007, a premium offering was launched – sandwiches prepared on new type of bread, 20-cm ciabatta with sunflower seeds.

Sandwich bars are to be the next step in the development of the catering industry in Poland, which is to be driven by the rising awareness of healthy eating in Poland. The additional factors determining the growth prospects in Poland include: higher professional activity of women, longer working hours, rising number of shopping centres with an extensive catering offering and an increasing number of students.

The first Rodeo Drive (American Bar & Grill) restaurant was opened in April 2006. Rodeo Drive, AmRest's second new concept, is a casual dining restaurant serving meals based mostly on grilled meat and a wide range of beverages. Rodeo Drive restaurants are traditional Texas saloons.

Rodeo Drive is a suitable place for a lunch, business meeting or an evening beer party. The design of the restaurants draws on the American tradition – wooden benches, tables, ceiling beams, stone wall features and objects associated with a ranch, such as hats, saddles and wagon wheels. A barbecue visible for the customers is a distinctive feature of the restaurants which emphases the character of the place.

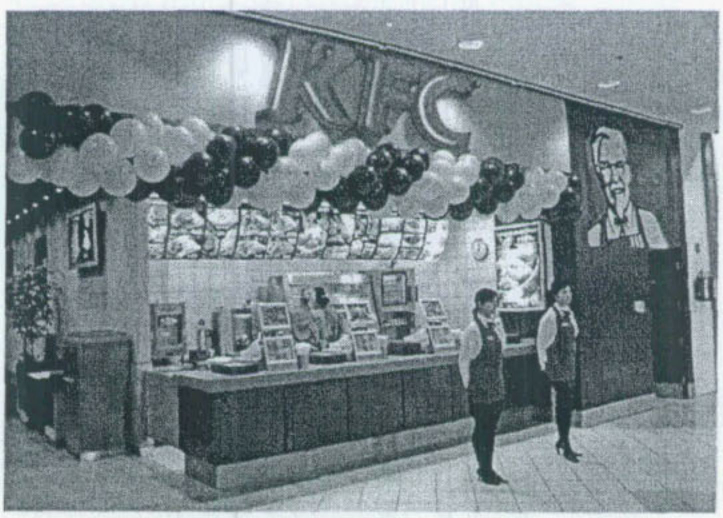
Rodeo Drive restaurants serve truly American food – the meals for real cowboys. Rodeo Drive's house special is beefsteak grilled on an open fire. Another very popular dish is roasted ribs, served with BBQ sauce, chilli, garlic and honey.



The restaurants are situated in attractive locations and may serve 150–250 customers at a time. At present, AmRest operates two Rodeo Drive restaurants, one in Wrocław, Poland, and one in Brno, the Czech Republic. In Q2 2007, AmRest plans to open another Rodeo Drive restaurant in Nowy Świat in Warsaw.

c) Hungarian Market

Starting from Q3 2006, the consolidated financial statement of the AmRest Group includes the Hungarian restaurants acquired in June 2006. At present, there are 12 Pizza Hut restaurants and 6 KFC restaurants in Hungary, all of which are operated by AmRest. At the time of the acquisition, 13 Pizza Hut restaurants and 4 KFC restaurants operated in Hungary.



Our Hungarian business continues its efforts to achieve full integration and compliance with AmRest's systems and standards. In H2 2006, the Hungarian restaurants implemented the DOS+ internal management system (Disciplined Operating System+) and standardised the training materials for the restaurant staff and management.

Following identification of the strengths and weaknesses of the restaurant staff, management and administrative employees, an action plan was developed to achieve the optimal utilisation of the employees' potential. The Hungarian team quickly adopted AmRest's work culture and core values.

The main objective of all the above activities is to lay foundation for the future growth. In AmRest's opinion, the KFC brand currently has a greater growth potential on the Hungarian market. At the same time AmRest continues the efforts to position Pizza Hut on the market (menu, prices, etc.), which will have a direct effect on the continued development of the brand on the Hungarian market.

d) Burger King

At the beginning of March 2007, AmRest and Burger King Europe GmbH concluded a development agreement under which the Company is to open and operate Burger King restaurants in Poland. The details of the agreement and the general terms and conditions for franchise agreements to be concluded in respect of individual restaurants are described in Appendix 1. Adding the Burger King brand to the portfolio represents AmRest entrence into the largest QSR segment.

Burger King is the second largest quick service restaurant chain in the world. Currently, there are over 11 thousand Burger King restaurants in over 65 countries. The owners and managers of approx. 90% of them are independent franchisees, many of whom are the owners of family businesses with many years of experience in the industry.

The most popular Burger King's product is the WHOPPER® sandwich which was introduced in 1957. For many years the WHOPPER® sandwich has been the favourite meal of many customers and one of the most recognised sandwiches in the world.

1.2. Revenue Structure

2006 was another year of growth in AmRest's sales revenue, which increased by 25.9% (PLN 629m in 2006 relative to PLN 500m in 2005). To compare, CAGR for sales in 2002–2006 was 13.2%. The high dynamic of sales was attributable mainly to the steadily growing sales of the existing restaurants as well as the sales generated by the restaurant chain in Hungary. Starting from Q3 2006, the revenue reported by the Hungarian restaurants has been included in the Group's results. Total sales of the Hungarian restaurants for Q3 and Q4 2006 amounted to PLN 21.4m.

The majority of the AmRest Group's revenue is generated in the Quick Service Restaurants segment (KFC and Freshpoint), which accounted for 79.1% of the Company's total revenue in 2006 (relative to 78.9% in 2005). Simultaneously, the segment's sales dynamic amonted to 26.3%. Casual Dining, the other segment of AmRest's business, comprising Pizza Hut and Rodeo Drive restaurants, accounted for 20.9% of the Company's total revenue (relative to 21.1% in 2005). The segment's sales dynamic amounted to 24.3%.

Table: AmRest's sales structure by segment

SEGMENT	Jan – Dec 2006		Jan – Dec 2005	
	PLN '000	share (%)	PLN '000	share (%)
Quick Service Restaurants	497,995	79.1%	394,192	78.9%
Casual Dinning	131,331	20.9%	105,618	21.1%
Total	**629,326**	**100.0%**	**499,810**	**100.0%**

In 2006, 69.2% of AmRest's revenue was generated in Poland, compared with 72.0% in 2005. The Czech Republic's share in the Group's revenue declined from 28.0% in 2005 to 27.4% in 2006. The Hungarian restaurants, which were only included in the Group's results for Q3 and Q4 2006, contributed 3.4% of AmRest's total annual revenue.

In 2006, the sales dynamic of the Polish restaurants amounted to 21.0%, compared with 23.2% in the case of the Czech restaurants. The restaurants operating in Poland contributed 58.5% to total sales revenue growth, while the Czech and Hungarian restaurants contributed 25.0% and 16.5%, respectively.

Table: AmRest's sales structure by country

COUNTRY	Jan- Dec 2006		Jan – Dec 2005	
	PLN '000	share (%)	PLN '000	share (%)
Poland	435,718	69.2%	360,002	72.0%
Czech Republic	172,247	27.4%	139,808	28.0%
Hungary	21,361	3.4%	0	0.0%
Total	**629,326**	**100.0%**	**499,810**	**100.0%**

1.3. Customers

AmRest's products are offered to a large number of individual customers through a chain of restaurants located in Poland, Czech Republic and Hungary, mainly in cities or in their immediate vicinity.

The target market for KFC in Poland and the Czech Republic is 15-39 year olds. Based on the available national statistics, this segment comprises 31% of Poland's and 44% of the Czech Republic's populations. Over 52% of KFC customers in the Czech Republic are 16-34 year olds, and 29% of them are aged between 35 and 54. Approximately 41% (43% according to the research conducted in 2004) of KFC customers in the Czech Republic completed at least secondary-level education, and over 60% (61.5% according to the 2004 research) live in cities with a population in excess of 20,000.

In the case of KFC customers in Poland, 79% (78% according to the 2004 research) are 15-39 year olds, 78% (78% according to the 2004 research) of them completed at least secondary-level education, and 66% (67% according to the 2004 research) live in cities with a population in excess of 20,000.

The principal target market for Pizza Hut in Poland is 15-39 year olds. Based on the latest available national statistics, this segment comprises 31% of the population (31% according to the 2004 research). 75% of Pizza Hut customers in Poland (75% according to the 2004 research) are aged between 15 and 39 years, 73% (71% according to the 2004 research) completed at least secondary-level education and 60% (63% according to the 2004 research) live in cities with a population in excess of 20,000.

The above figures are based on the research carried out by SMG/KRC TGI in Poland and by MML TGI in the Czech Republic.

1.4. Suppliers

AmRest's strategy for food and packaging purchases assumes ensuring quality and high level of service, as well as competitiveness – subject to fulfilment of the first two objectives. The Company has in place a strict programme for approving new suppliers and products, as well as for monitoring the existing suppliers, which ensures that the products supplied to AmRest restaurants come up to all the required standards. As part of the programme, the suppliers have implemented the Hazard Analysis and Critical Control Point system (HACCP) and in many cases hold other certificates, including ISO or BRC. Additionally, every year the Yum! audit is carried out in order to verify compliance with the quality standards at KFC and Pizza Hut outlets.

In line with AmRest's requirements, the Food Safety and Quality Systems audits are conducted by an independent auditor. The former is concerned with safety of products from the point of view of customers' health, which is ensured by appropriate production standards and procedures, while the latter focuses on the ability to deliver sustainable quality and the highest efficiency of the production process. These standards are among the most stringent on the market.

In addition, in the case of AmRest's key suppliers, product quality assessment is routinely carried out on a randomly selected foodstuff at a particular restaurant, in accordance with narrowly defined requirements. The foodstuff undergoes assessment both in its unprocessed form and in the form of a finished meal ready to be served to the restaurant's customers. Should any deviations from the standards observed by AmRest be identified, the producer is obligated to take appropriate measures, depending on the nature of the shortcoming in the foodstuff quality. Concurrently, in the case of key foodstuffs such as chicken meat, their quality is monitored on an ongoing basis by means of monthly reports from a restaurant. The Pizza Hut and KFC restaurants located in Poland and the Czech Republic have the HACCP system in place.

One of the requirements which our suppliers need to satisfy is a seamless system of product tracking from an unprocessed ingredient to the finished product delivered to end customer – in this case a restaurant and its customers.

This is particularly important if evidence of any threat to human health threats is identified. In 2006, AmRest's quality control division in the Czech Republic hired an additional employee who was made responsible for the Czech market and whose duties will include enforcement of compliance with AmRest's standards by the Czech suppliers.

On the Hungarian market, standards similar to those in effect on the Polish and Czech markets are being introduced. The implementation of audit and monitoring procedures relating to key ingredients supplied to the restaurants is underway. Additionally, the preparation of semi-finished products supplied to the restaurants is being streamlined with the aim of replacing semi-finished products prepared directly on site by semi-finished products supplied by qualified sub-suppliers who can guarantee production standards.

An efficient distribution system plays a vital role in the restaurant industry. The bulk of AmRest's purchases are distributed through selected distribution centres including McLane in Poland and EST in the Czech Republic. With a view to ensuring adequate service quality, distribution audits are carried out at those centres. Fresh foodstuffs like pre-processed vegetables and chilled chicken products are transported in the suppliers' vehicles – well-equipped refrigerated trucks with temperature-monitoring devices.

The year 2006 was the fifth consecutive year of persisting price deflation for food products and packaging – which means that prices decreased year on year in real terms. However, the effect of declining prices was fully offset by promotional campaigns organised at the KFC and Pizza Hut restaurant chains. They allowed AmRest to generate considerably higher sales and prevent erosion of the profit margins. Prices paid to suppliers decreased, primarily as a result of higher volumes of purchases, due to the consolidation within AmRest and the network of Yum! franchisees in Central Europe which also use the services provided by SCM. Thanks to the increased volume of purchases, AmRest's key suppliers were able to deploy new technologies and equipment, thereby improving their work efficiency. Over the past two years, one of AmRest's key suppliers has boosted its production efficiency by more than 45%.

An important part of the procurement strategy implemented by AmRest is the technical analysis of prices of foodstuffs and packaging materials on the European market, which enabled the Company to make an optimal decision regarding the purchase of French fries for the 2006/2007 season – the agreement concluded early in 2006 enabled AmRest to avoid the effect of considerable price rises of French fries in the wake of the drought conditions in June and July of 2006.

In 2006, SCM Sp z o.o. concluded an agreement for the provision of services to Rostics/KFC of Russia. Furthermore, it began cooperation with major Russian food distributors, including Russia's largest chicken processing plant. Currently, negotiations over contract terms are underway with customers from Poland, Ireland and England. All those activities are aimed at ensuring that SCM customers are delivered a satisfactory level of service and at creating conditions where the growing scale of operations translates into benefits for all the interested parties.

One of the priority objectives which must currently be implemented in connection with the recent acquisition of the Hungarian restaurants is the establishment of an effective procurement base in Hungary and its integration with the procurement system in Poland and the Czech Republic.

AmRest's key supplier is McLane. It supplies the Polish restaurants with packaging and all food products excluding chicken meat, which is supplied directly by producers, and vegetables (in the case of some restaurants). In March 2006, after comparing service prices within Yum!'s European network, a decision was made to extend the agreement with McLane for another two years, until the end of July 2008 (for detailed information see Current Report No. 8/2006 dated March 24th 2006, concerning the conclusion of an annex to the aforementioned agreement).

AmRest continues implementation of its new product development strategy – in 2006, the group pf the Company's partners in product development was expanded to include an English company, one of the leading spice and marinate producers in the world. Thanks to the cooperation with those partners, as well as the Marketing and New Product Development Divisions, a number of new products and solutions were launched, which significantly contributed to the sales growth reported by the KFC and Pizza Hut restaurants.

10 largest suppliers of Pizza Hut and KFC restaurants in Poland:

McLane (general supplier)

Drobimex – chicken

Konspol – chicken

Pepsi Cola – cold beverages

Lantmanen – rolls

OSM Szczurowa – mozzarella

Stoever – French fries

Bona Agra – vegetables

Huhtamaki – packaging

Lactalis – mozzarella, ementaler

10 largest suppliers in the Czech Republic:

Agropol Food – chicken

E.S.T. (distributor)

Beskyd Frycovice – vegetables and sauces

Pepsi Cola – cold beverages

Stoever – French fries

Setuza – shortening

Huhtamaki – packaging

Run – corn cobs

McCormick – spice and marinate

Bohemik – ice-cream and dessert

Only in the case of McLane the value of supplies exceeds 10% of the Company's total sales revenue. Supplies by each of the remaining largest suppliers (presented above) ac-count for less than 10% of the sales revenue.

2. Company's Shareholders

2.1. Shareholder Structure

According to the information available to the Company, as at the date of filing the annual report (March 30th 2007), the following shareholders submitted information on holding directly or indirectly (through subsidiaries) at least 5% of the total vote at the General Shareholders Meeting of AmRest Holdings N.V.

Shareholder	No. of shares	% of share capital held	No. of votes at GM	% of the total vote at GM
IRI LLC *	5,062,450	37.50%	5,062,450	37.50%
BZ WBK AIB AM **	1,315,093	9.74%	1,315,093	9.74%
ING Nationale – Nederlanden Polska OFE	838,046	6.21%	838,046	6.21%
ING TFI S.A.	706,227	5.23%	706,227	5.23%
AIG OFE	698,535	5.17%	698,535	5.17%

* IRI LLC is wholly controlled by ARC.

** BZ WBK AIB AM manages assets, including investment funds of BZ WBK AIB TFI.

2.2. Changes in the Shareholder Structure

The Company is not aware of any changes in the ownership of significant blocks of shares since the publication of the most recent interim report (the report for the fourth quarter of 2006, published on February 28th 2007).

2.3. Other Information on Shareholders

The Management Board of AmRest is not aware of any information on agreements (including agreements concluded after the balance-sheet date) which might result in changes in the proportionate shareholdings of its existing shareholders in the future.

To the best of the Management Board's knowledge, no shareholder in AmRest has been conferred special control rights with respect to the Company.

3. Company's Management and Supervisory Staff. Stock Option Plan

3.1. Composition of the Company's Management and Supervisory Boards

During the last financial year, there were no changes in the rules governing appointment and removal from office of members of the management staff or the powers of the management staff.

a) Management Board

Composition of the AmRest's Management Board is as follows:

Henry McGovern and

Wojciech Mroczyński

b) Supervisory Board

Composition of the AmRest's Supervisory Board is as follows:

Christian Richard Eisenbeiss,

Donald Macintosh Kendall Sr.,

Donald Macintosh Kendall Jr.,

Przemysław Schmidt,

Jan Sykora, and

Per Steen Breimyr

3.2. Remuneration of the Management and Supervisory Staff

In 2006, each member of the supervisory staff of AmRest received remuneration of PLN 20,000.

The total remuneration paid to Henry McGovern for 2006 amounted to PLN 1,396 thousand. The total remuneration paid to Wojciech Mroczyński for 2006 amounted to PLN 570 thousand.

Henry McGovern and Wojciech Mroczyński participate in the Stock Option Plan. The table below sets forth changes in the numbers of AmRest stock options held by the Company's management and supervisory staff in 2006, presented in accordance with the information available to the Company.

	Post*	No. of stock options as at Dec 31 2005	Increase	Decrease	No. of stock options as at Dec 31 2006
Henry McGovern	M	100,000	10,000	-	110,000
Wojciech Mroczyński	M	7,000	-	-	7,000

* (M) – management staff, (S) – supervisory staff.

As at December 31st 2006, Henry McGovern held a total of 110,000 units (options) under the Stock Option Plan, of which 82,000 units have vested. As at December 31st 2006, their value amounted to PLN 5,604 thousand.

As at December 31st 2006, Wojciech Mroczyński held a total of 7,000 units (options) under the Stock Option Plan, of which 1,400 units have vested. As at December 31st 2006, their value amounted to PLN 70 thousand.

For more information on the Stock Option Plan see Note 22 to the consolidated financial statements.

3.3. Other Information on the Company's Management and Supervisory Staff

The Management Board of AmRest Holdings N.V. reports that there are no agreements between the Company and the members of the management staff, which would provide for any compensation in the event of their resignation or dismissal.

Henry McGovern, indirectly through the shareholding in Metropolitan Properties International Sp. z o.o. (MPI), holds 4,075 shares in AmRest (RB 27/2006 dated July 18th 2006). Additionally, Henry McGovern holds the Company shares through the shareholding in American Retail Concepts (ARC), which is the sole shareholder of International Investments, LLC (IRI). IRI is the major shareholder of AmRest (please also see Note 32 to the consolidated financial statements). The other members of the management and supervisory staff of AmRest Holdings N.V. do not hold the Company shares or shares or interests in the Company's related parties.

3.4. Control over Stock Option Plans

Until April 27th 2005, the AmRest Group had a Performance Participation Plan in place ("Stock Option Plan 1") under which eligible employees received participation units whose value was based on a multiple of profits for the financial year, adjusted for factors provided for in the Plan rules. According to the Plan rules, upon completion of the process of admission of AmRest Holdings N.V. shares to public trading on the Warsaw Stock Exchange, the Company was obliged to pay its employees the value of the vested participation units as at the date of admission of its shares to public trading.

The Performance Participation Plan was terminated as of April 27th 2005. Some participation units issued under the Plan, which had vested as at April 27th 2005, were settled by the Company. The obligations related to the rest of the issued participation units which have not vested and to unsettled units which had vested as at April 27th 2005 were assumed by ARC, a Company shareholder, and will be settled by ARC in the future.

In April 2005, the rules of the Employee Stock Option Plan ("Stock Option Plan 2") were announced by the Company to its employees. Under the Stock Option Plan 2, the employees of the AmRest Group are entitled to purchase AmRest Holdings N.V. shares. The total number of shares for which options may be issued is to be determined by the Management Board; however, it may not exceed 3% of all outstanding shares. In addition, under the provisions of Stock Option Plan 2, the group of employees eligible to participate in Stock Option Plan 2, the number of granted options, and the option allocation dates are subject to approval by the Management Board. The option exercise price will be equal to the market price of the Company shares as at the option grant date, with the option vesting period being three or five years.

The aforementioned plans are of an incentive nature and are addressed only to the key employees and members of the management staff of the AmRest Group companies.

For detailed information on the valuations and accounting treatment of the plans see Note 22 to the consolidated financial statements.

4. Organization of the Group

4.1. Composition of the Group

The current composition of the AmRest Group is presented in Note 1a to the consolidated annual financial statements as at and for twelve months ended December 31st 2006. The changes in the Group's composition in the period are described below.

On February 3rd 2006, American Restaurants Sp. z o.o., a subsidiary of AmRest, acquired 10% of shares in SCM Sp. z o.o., thereby increasing its holding to 45%. SCM provides American Restaurants Sp. z o.o. with intermediation and negotiation services with regard to terms of deliveries to restaurants, including negotiation of terms and conditions of distribution agreements. For detailed information on the transaction see Note 4 and Note 31.

On June 30th 2006, American Restaurants Sp. z o.o. acquired 100% of shares in Kentucky System, Kft. of Budapest from Central European Franchise Group, Ltd. Upon acquiring all shares in Kentucky System, AmRest became the owner of thirteen Pizza Hut restaurants and four KFC restaurants in Hungary. In September, Kentucky System, Kft. was renamed American Restaurants, Kft. For detailed information on the transaction see Appendix 2 and Note 4.

On October 25th 2006, American Restaurants Sp. z o.o. concluded an agreement providing for the acquisition of 100% of shares in Doris 2006 Sp. z o.o. The acquired company is a lessee of a property at ul. Chmielna 2 in Warsaw. For detailed information on the transaction see Appendix 2 and Note 4.

The Group has offices in Wrocław, Poland, and operates restaurants in Poland, the Czech Republic and Hungary.

4.2. Employment

In the period 2004–2006, the employment in the Group was as follows (as at year end):

Table: Employment at AmRest (2004–2006)

Year	2006	2005	2004
Restaurants	6,659	5,609	4,764
Administration	179	112	130
Total	**6,838**	**5,721**	**4,894**

4.3. Changes in the Management System

Since the beginning of 2006, the following changes have been introduced in the Company's and the Group's management system:

A significant change introduced into the management system of the Company was the creation of a new New Markets Director position. The position was filled by Mr Jacek Trybuchowski, who rejoined AmRest in June 2006. Formerly, during 10 years of his work at AmRest, Mr Trybuchowski served as Pizza Hut Polska's Brand President and held a number of other functions. For the last 2.5 years he has been employed at Yum!, where he was in charge of various European markets.

In May 2006 AmRest, filled the vacant position of Human Resources Director, which was offered to Mr Paweł Miłoszowski, who previously worked for Avon and Procter&Gamble.

In December 2006, Tomasz Suchowierski, Business Development Director, finished his service at AmRest. Subsequently, in December 2006, the position was taken by Mr Mike Whitney, who formerly held managerial posts in the European branches of construction and design corporations such as the Bechtel Group and Washington Group International, Inc.

In 2006, there was a change in the management structure of the AmRest restaurant chain. A former Pizza Hut District Coach, Mr Maciej Kuczyński, became the head of the Pizza Hut brand. At the beginning of 2007, Mr James Glover ended his service at AmRest, and the management of the Rodeo Drive brand was entrusted to Jakub Strestik, former KFC District Coach.

In connection with the Company's rapid development, 2006 saw the opening of the first semester at the corporate AmRest University (AmU), which is founded on the AmRest core values. The aim of this project is to develop the people with the greatest potential (Top 20%) and to prepare them to take up new challenges and new positions. AmU offers the comprehensive program of activities with regards to leadership and key competitions. The AmU students participate in several two- or three-day training sessions conducted by AmRest senior management. The accomplishment of AmU, the unique managerial program, is a major distinction for its participants. This program constitutes a great platform for the growth of AmRest.

At the beginning of 2007, AmRest embarked on the process of developing an internal marketing department. Some employees of Synergy, the company which provided AmRest with marketing services, were offered positions in the Company, and the other members of the staff were hired following an external recruitment process. Mr Tomasz Piotrowski, head of Synergy, was appointed QRS Brands Marketing Director. The marketing division is headed by Mr Zoltan Lukac, Chief Marketing Officer.

5. COMPANY'S FINANCIAL STANDING AND ASSETS

5.1. Assessment of the Company's Performance and the Balance Sheet Structure

Table: Financial highlights of AmRest (for 2004–2006)

PLN '000, unless stated otherwise	2006	2005	2004
Sales revenue	629,326	499,810	463,198
EBITDA	91,205	62,850	53,614
EBITDA margin	*14.5%*	*12.6%*	*11.6%*
Operating profit/(loss)	44,495	23,298	20,118
Operating margin (EBIT margin)	*7.1%*	*4.7%*	*4.3%*
Pre-tax profit/(loss)	48,956	15,339	13,538
Pre-tax margin	*7.8%*	*3.1%*	*2.9%*
Net profit/(loss)	38,642	22,111	11,770
Net margin	*6.1%*	*4.4%*	*2.5%*
Equity	157,864	123,090	17,540
Return on equity (ROE)	*28%*	*31%*	*92%*
Balance-sheet total	320,989	288,941	214,366
Return on assets (ROA)	*13%*	*9%*	*5%*

Definitions:

- *EBIDTA margin: EBITDA (earnings before interest, tax, depreciation and amortisation) to sales revenue;*
- *Operating margin: operating profit to sales revenue;*
- *Pre-tax margin: pre-tax profit to sales revenue;*
- *Net margin: net profit to sales revenue;*
- *Return on equity (ROE): net profit to average equity;*
- *Return on assets (ROA): net profit to average assets.*

Table: Liquidity in 2004–2006

PLN '000, unless stated otherwise	2006	2005	2004
Current assets	64,656	64,299	31,042
Inventories	8,134	5,973	5,819
Current liabilities	78,700	73,267	169,866
Quick ratio	*0.72*	*0.80*	*0.15*
Current ratio	*0.82*	*0.88*	*0.18*
Cash and cash equivalents	25,241	31,575	11,486
Cash ratio	*0.32*	*0.43*	*0.07*
Inventory cycle (days)	*3.94*	*4.31*	*4.82*
Trade receivables	11,460	13,463	8,069
Average collection period (days)	*6.61*	*7.86*	*8.16*
Average operating cycle (days)	*10.55*	*12.17*	*12.98*
Trade payables	75,448	54,896	50,766
Average payment period (days)	*37.83*	*38.58*	*42.31*
Cash conversion ratio (days)	*(27.28)*	*(26.41)*	*(29.33)*

Definitions:

- *Quick ratio: current assets less inventories to current liabilities;*
- *Current ratio: current assets to current liabilities;*
- *Cash ratio: cash and cash equivalents to current liabilities as at the end of the period;*
- *Inventory cycle (days): average inventories to sales revenue, times the number of days in the period;*
- *Average collection period (days): average trade receivables to sales revenue, times the number of days in the period;*
- *Average operating cycle (days): sum of the inventory cycle and the average collection period;*
- *Average payment period (days): average trade payables to sales revenue, times the number of days in the period;*
- *Cash conversion ratio: difference between the operating cycle and trade payables.*

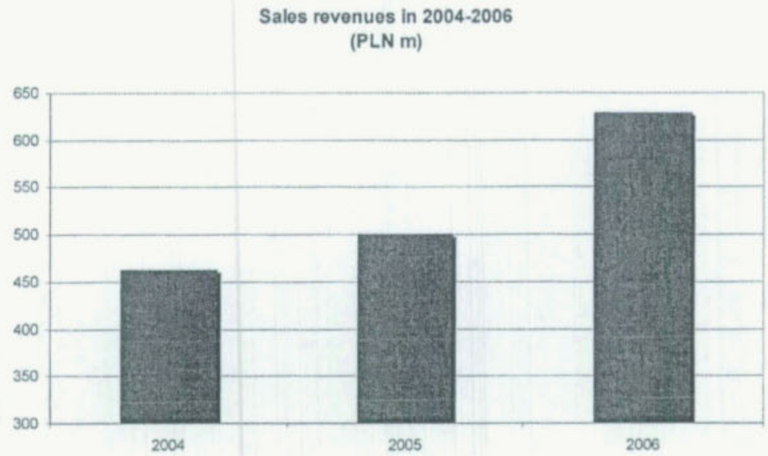
Table: Debt in 2004–2006

PLN '000, unless stated otherwise	2006	2005	2004
Current assets	64,656	64,299	31,042
Non-current assets	256,333	224,642	183,324
Trade receivables	11,460	13,463	8,069
Liabilities	163,125	165,851	196,790
Non-current liabilities	84,425	92,589	26,924
Inventories to current assets (%)	*12.58%*	*9.29%*	*18.75%*
Trade receivables to current assets (%)	*17.72%*	*20.94%*	*25.99%*
Cash and cash equivalents to current assets (%)	*39.04%*	*49.11%*	*37.00%*
Equity to non-current assets	*0.62x*	*0.55x*	*0.10x*
Debt ratio	*0.51x*	*0.57x*	*0.92x*
Long-term debt ratio	*0.53x*	*0.75x*	*1.54x*
Liabilities to equity	*1.0x*	*1.3x*	*11.2x*

Definitions:

- *Inventories, trade receivables, cash and cash equivalents to current assets: inventories, trade receivables, cash and cash equivalents, respectively, to current assets;*
- *Equity to non-current asset ratio: equity to non-current assets;*
- *Debt ratio: total liabilities and provisions for liabilities to assets;*
- *Long-term debt ratio: non-current liabilities to equity;*
- *Liabilities to equity: liabilities and provisions for liabilities as at the end of the period to equity.*

In 2006, AmRest generated sales of PLN 629,326 thousand, up by 25.9% on the 2005 figure. When compared with 2005, in 2006 sales growth dynamics was higher in the second half of the year, when it amounted to 28.5%. The sales increase was mainly attributable to the steady growth in the sales of the existing restaurants and the sales revenue generated by the restaurant chain in Hungary. The revenue of the Hungarian restaurants has been included in the Group's results since Q3 2006. In Q3–Q4 2006, sales in Hungary totalled PLN 21.4m.



The 2006 sales were positively affected by an approximately 1.8% appreciation of the Chech crown against the Polish złoty compared with 2005.

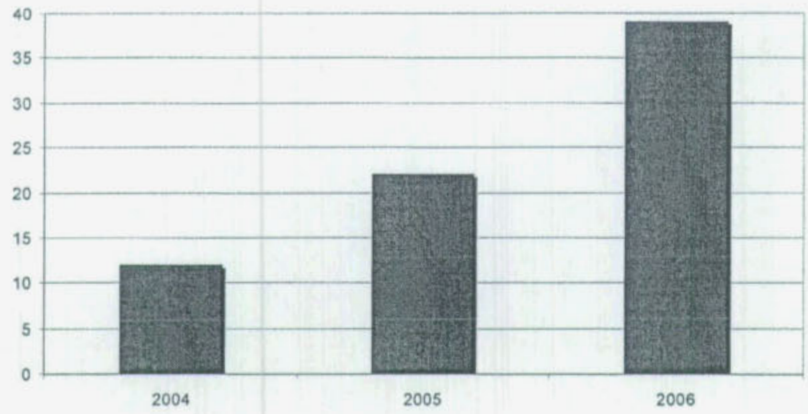
AmRest has seen a steady improvement of its operating margin. In 2006, costs grew more slowly than sales, with the resulting increase in gross profit margin to 13.6%, compared with 13.0% in 2005.

A factor which had a positive impact on the 2006 performance was the lower – relative to sales – occupancy and other operating expenses. On the other hand, the financial results were negatively affected by the increased – relative to sale – cost of payroll and employee benefits. The decrease of occupancy and other operating expanses was driven mainly by economies of scale achieved thanks to the record sales generated in 2006. The increase in the cost of payroll and employee benefits is attributable to the general trends on the labour markets in Poland, the Czech Republic and Hungary. It is principally connected with remuneration and benefits of the crew. In 2006, the Company's marketing expenses remained at a level relatively similar to that of 2005 and amounted to PLN 30,590 thousand (4.9% of sales).

In 2006, operating profit amounted to PLN 44,495 thousand, up by 91.0% compared to 2005 figure, while 2006 EBITDA amounted to PLN 91,205 thousand, up by 45.1% compared to 2005. In 2006, the operating margin amounted to 7.1% (compared to 4.7% in 2005), while EBITDA margin amounted to 14.5% (compared to 12.6% in 2005). The main driver of the 2006 improved operating margin was a relative decrease in restaurant expenses (by 0.6 pp), as well as in general and administrative expenses (by 0.6 pp). Another favourable factor was the gain on the disposal of fixed assets (0.7 pp).

In 2006, the net profit amounted to PLN 38,583 thousand and increased by 74.8% compared to 2005, while the net margin increased from 4.4% to 6.1%. The improvement in the net profit was also driven by the increased net financial income in 2006. A decrease in the financial costs recorded in 2006 is attributable to the lower interest expense, while the increase in financial income (compared to 2005) is mainly attributable to foreign exchange gains relating to the valuation of a loan advanced by AmRest to one of its related parties (PLN 3,688 thousand) and the debt waiver (PLN 3,396 thousand) described in Section 5 of the Notes to the Q2 2006 Report.

Net profit in 2004-2006
(PLN m)



As at the end of 2006, quick and current ratios were close to the respective 2005 figures and amounted to 0.72 and 0.82, respectively. The slight decrease in cash and cash equivalents and the increase in current liabilities affected the cash ratio, which dropped to 0.32 (compared to 0.43 as at the end of 2005).

The structure of interest-bearing external financing also changed significantly. Compared with 2005, there was a sizeable reduction in the amount of the Group's short-term bank loans. As at December 31st 2006, they totalled PLN 918 thousand compared to PLN 18,321 thousand as at the end of 2005. For detailed information on bank loans see Note 21 to the financial statements.

Despite the growing number of newly-opened restaurants, the Group managed – by optimising the supply chain management – to maintain its inventories approximately on par with the 2005 year-end balance. As a result, there was a further improvement in the inventory cycle, which decreased from 4.3 days in 2005 to 3.9 days in 2006. Thanks to the stable average collection period (6.6 days) and average payment period (37.8 days), the Group can finance much of its current operations with trade credit.

The AmRest Group's liquidity has improved. Given the nature of the restaurant business, the present liquidity ratios ensure the Group's disruption-free operations. The available free cash flow permits the Group to settle existing liabilities and to finance, in a balanced manner, the planned capital expenditures.

The AmRest Group's equity has been growing steadily. It increased from PLN 123,090 thousand as at the end of 2005 to PLN 157,864 thousand as at the end of 2006. The debt to equity ratio decreased from 1.3 in 2005 to 1.0 in 2006. The debt ratio went down from 0.57 to 0.51 in the analogous period.

5.2. Loans and Borrowings Contracted within the Group

Detailed information on the loans and borrowings is presented in Note 21 to the financial statements.

The table below presents all the loans granted to related parties:

a. AmRest Holdings N.V.

Borrower	Loan currency	PLN '000	
		Value of loans granted as per agreement *	Loan value as at Dec 31 2006**
American Restaurants s.r.o.	CZK	22,235	23,855

** translated at the mid-exchange rate quoted by the NBP on Dec 31 2006*

*** plus interest charged until Dec 31 2006*

b. American Restaurants sp. z o.o.

Borrower	Loan currency	PLN '000	
		Value of loans granted as per agreement *	Loan value as at Dec 31 2006**
American Restaurants, Kft	PLN	15,000	1,523
American Ukraina t.o.w.	USD	302	276
Grifex I sp. z o.o.	PLN	918	918
Doris Sp.z o.o.	PLN	500	30

** translated at the mid-exchange rate quoted by the NBP on Dec 31 2006*

*** plus interest charged until Dec 31 2006*

On October 30th 2006, Annex 2 to the credit facility agreement of April 4th 2005 between AmRest Holdings N.V., American Restaurants Sp. z o.o., American Restaurants s.r.o. and ABN AMRO Bank N.V. was signed. For details of the Annex see Appendix 1.

As at December 31st 2006, the following credit facilities were available to the AmRest Group:
a) ABN Amro Bank - PLN 20,000 thousand (PLN/CZK revolving loan)
b) ABN Amro Bank - PLN 3,831 thousand (CZK overdraft facility)
c) ABN Amro Bank - PLN 10,000 thousand (PLN overdraft facility)
d) Bank BPH - PLN 202 thousand (PLN overdraft facility).

On the 22nd of December 2006 the Cash Pooling Agreement with ABN AMRO Bank (Poland) S.A., seated in Warsaw, has been signed. The aim of the Agreement is to increase the effectiveness of the cash management within the companies of the AmRest Group. The details of the Agreement are included in the Appendix No 2.

The other element of the Group liquidity management is investing the short-term financial surplus in the high-liquid and well rated financial instruments. In November 2006 AmRest purchased the Toyota Bank Poland S.A. certificates of deposit. This investment is described in Note 18.

5.3. Key Domestic and Foreign Investments

The table below presents acquisitions of non-current assets in 2006 and comparable data for 2005.

Table: Acquisitions of non-current assets by AmRest Holdings N.V. (2006–2005)

PLN '000		Dec 31 2006	Dec 31 2005
Intangible assets, including:			
	Trademearks	-	342
	Lease agreements on favourable terms	1,076	8,389
	Licences to use the Pizza Hut and KFC trademarks	1,369	1,743
	Goodwill	18,666	4,819
	Other intangible assets	283	3,037
Property, plant and equipment, including:			
	Land	-	-
	Buildings	24,271	26,557
	Equipment	14,998	15,936
	Vehicles	450	22
	Other, including: property, plant and equipment under construction	20,305	(129)
Total		**81,418**	**60,716**

Capital expenditure incurred by AmRest is primarily connected with opening new restaurants, and with reconstruction and replacement of assets in the existing restaurants. Another item of capital expenditure in 2006 related to the acquisition of 100% of shares in Kentucky System, Kft. The Company's capital expenditure depends primarily on the number and type of the newly-opened restaurants.

Number of restaurants of AmRest Holdings N.V. (2004–2006)

As at	Dec 31 2006	Dec 31 2005	Dec 31 2004
Number of restaurants			
Pizza Hut in Poland	52	52	55
Pizza Hut in the Czech Republic	0	0	1
Pizza Hut in Hungary	12	0	0
KFC in Poland	79	76	71
KFC in the Czech Republic	43	41	30
KFC in Hungary	5	0	0
FreshPoint in Poland	4	0	0
Rodeo Drive in Poland	1	0	0
Rodeo Drive in the Czech Republic	1	0	0
Total	**197**	**169**	**157**
Total restaurants opened	33	25	13
Total restaurants closed	5	13	4
Net increase in the number of restaurants in the reporting period	**28**	**12**	**9**

In 2006, AmRest expanded its operations to include two new brands, i.e. FreshPoint and Rodeo Drive, and entered a new geographical market, namely Hungary.

From among the overall number of 12 KFC restaurants opened in Poland, the Czech Republic and Hungary, 4 were acquired from Kentucky System, Kft. In 2006, the total number of Pizza Hut restaurants grew by 15, 13 of which were acquired from the Hungarian company. Additionally, 4 new FreshPoint restaurants and 2 new Rodeo Drive restaurants were opened.

In the years to come the Management Board intends to open several dozens restaurants each year. Following the balance-sheet date, the Company opened another 4 restaurants, including 3 KFC restaurants and 1 FreshPoint restaurant.

In 2006, the investments were primarily financed with cash provided by operations.

In 2006, AmRest's capital expenditure totalled PLN 77,531 thousand, and comprised:

- Funds invested in the acquisition of: Kentucky System, Kft (on September 19th 2006 Kentucky System, Kft was renamed American Restaurants, Kft) and Doris 2006 Sp.z o.o. – PLN 21,565 thousand (or PLN 20,730 thousand, VAT exclusive, including the acquired cash);

- Acquisitions of property, plant and equipment of PLN 54,445 thousand, and of intangible assets of PLN 1,521 thousand.

5.4. Structure of Key Equity Investments

As at December 31st 2006, the equity investments of AmRest amounted to PLN 1,221 thousand, including PLN 923 thousand worth of shares in Worldwide Communication Services LLC (WCS), and PLN 298 thousand worth of shares in SCM Sp. z o.o.

5.5. Major Events With a Significant Impact on the Company's Operations and Financial Results

a) In January 2006, AmRest reported that Amrest Ukraina t.o.w. of Kiev, Ukraine, was registered. AmRest holds 100% of shares in this company through its subsidiary, American Restaurants Sp. z o.o. The company's share capital amounts to UAH 252,500. Amrest Ukraina t.o.w. was incorporated in order to supervise investment projects and operate restaurants in Ukraine. In October 2006, AmRest reported on its decision to defer development of the restaurant business on the Ukrainian market. This decision was based on AmRest's experience with the Ukrainian operations conducted since the beginning of 2006. AmRest plans to keep its Ukrainian company. AmRest believes in the potential of the restaurant market in Ukraine; however, whether this potential can be tapped on depends on stabilisation on the real property market and further market reforms. AmRest is convinced that within a few years stabilisation on the real property market and the overall market situation will create a more favourable environment for development in this country.

b) In mid-March 2006, the first FreshPoint restaurant was opened in Warsaw. Currently, 5 FreshPoint restaurants are in operation (all situated in Warsaw).

c) On March 23rd 2006, an Annex to the Distribution Agreement of April 2nd 2003 between AmRest and McLane Polska Sp. z o.o. of Błonie was signed. For detailed terms of the Annex see Appendix 1.

d) In April 2006, the first Rodeo Drive (American Bar & Grill) restaurant was opened in Wrocław. Currently, the Company operates 2 Rodeo Drive restaurants (another one is located in Brno, Czech Republic).

e) April 1st 2006 was the effective date of debt waiver, based on agreements on debt waiver received from the shareholder, International Restaurants Investments, LLC ("IRI"). For details concerning the debt waiver see Appendix 2.

f) The Annual General Shareholders Meeting of AmRest Holdings N.V. was held on May 22nd 2006. The only shareholder with 5% or more of the total vote at the Meeting was International Restaurant Investments LLC, with 5,338,000 votes, which accounted for 100.00% of votes represented at the Meeting and 39.54% of the total vote. The Annual General Shareholders Meeting considered all the items included in its agenda and adopted resolutions concerning *inter alia*: approval of the financial statements for the financial year 2005, allocation of the 2005 profit to cover retained deficit, and grant of discharge in respect of the duties of Members of AmRest's Supervisory Board and the Management Board. Moreover, the Annual General Shareholders Meeting approved the employee stock option plan and authorised the Management Board to increase AmRest's share capital.

The text of all the resolutions adopted at the Meeting is presented in the appendix to Current Report No. 19/2006 of May 22nd 2006.

g) On June 2006, AmRest acquired 100% of shares in Kentucky System, Kft. of Budapest (in September the company's name was changed to American Restaurants, Kft.), the operator of 17 KFC and Pizza Hut restaurants in Hungary. This transaction was another significant step in the implementation of the AmRest Group's strategy desigend to enhance the Group's market position in Central and Eastern Europe. The details of the transaction are presented in Appendix 2 and Note 4.

h) On October 25th 2006, AmRest acquired 100% of shares in Doris 2006 Sp. z o.o., which is the lessee of premises at ul. Chmielna 2 in Warsaw, where AmRest intends to open one of its restaurants. For details concerning the transaction see Appendix 2. and Note 4.

i) On October 30th 2006, Annex 2 to the credit facility agreement of April 4th 2005 between AmRest Holdings N.V., American Restaurants Sp. z o.o., American Restaurants s.r.o. and ABN AMRO Bank N.V. was signed. The details of the Annex are presented in Appendix 1.

j) On December 22nd 2006, a cash pooling agreement was concluded with ABN AMRO Bank (Polska) S.A., of Warsaw. The details of the agreement are presented in Appendix 2.

k) On March 8th 2007, a Development Agreement was concluded with Burger King Europe GmbH, providing for opening and operating franchised Burger King restaurants in Poland. The details regarding the agreement are presented in Appendix 1. The first restaurant is scheduled to be opened in the second quarter of 2007.

l) On March 9th 2007, AmRest reported on the general terms and conditions of Franchise Agreements to be concluded with Burger King Europe GmbH each time a new Burger King restaurant is opened. For details concerning the agreement see Appendix 1.

m) On March 16th 2007, AmRest reported on obtaining acceptance of Yum!, the franchisor of KFC and Pizza Hut brands, regarding opening and operating restaurants under these brands in Bulgaria. As the Yum! brands are present on the Bulgarian market, where 11 KFC and Pizza Hut restaurants are now operating, AmRest does not hold exclusivity rights to operate such restaurants. In the initial phase of the investment project in Bulgaria, the Company will focus on the development of KFC restaurants. The Company plans to open the first KFC restaurants by the end of 2007. Obtaining Yum!'s acceptance is another key step in the pursuit of the AmRest Group's strategy to strengthen the Group's market position in Central and Eastern Europe.

n) On the 28th of March 2007 the non-binding Preliminary Agreement between AmRest and Starbucks Coffee International Inc., Starbucks Coffee EMEA BV, Starbucks Manufacturing EMEA BV (collectively, the "Starbucks"), in relation to a possible relationship for development and organization of Starbucks stores in Poland, Czech Republic and Hungary, was signed. The Preliminary Agreement concerns obtaining the approvals of the applicable competition authorities required to organize and establish joint ventures companies in some of the above countries.

o) On the 27th of March 2007 American Restaurants Sp. z o.o. and Doris 2006 Sp. z o.o., the subsidiaries of AmRest, signed the Article of Association of AmRest Coffee Sp. z o.o. American Restaurants Sp. zo.o. subscribed 499 shares of the new company which constitute 99.8% of AmRest Coffeee Sp. z o.o. equity and Doris 2006 Sp. z o.o. subscribed 1 share (0.2% of equity). The nominal value of each share amounts to PLN 100. The total equity of the new company amounts to PLN 50,000. AmRest Coffee sp. z o.o. has been established in relation to the signing of the Preliminary Agreement with Starbucks and obtaining the approvals of the Polish competition authorities.

5.6. Other Factors and Extraordinary Events with a Material Impact on the Group's Performance

a) Four cases brought against IFFP by DOMONT Stefan Pastryk Anna Pastryk spółka jawna are pending before the Regional Court of Warsaw, XVI Commercial Division. The claims concern the payment of amounts due under notes issued by IFFP to DOMONT Stefan Pastryk Anna Pastryk spółka jawna for a total amount of PLN 4,030,000. DOMONT's claims concern the payment for construction works that had been performed by DOMONT for IFFP before November 2000, i.e. before American Restaurants Sp. z o.o. acquired shares in IFFP. According to the Management Board of IFFP, the claims are groundless, as they are not justified by the balance of settlements between IFFP and DOMONT. According to the documents disclosed, DOMONT does not have the right to claim the payment of the disputed amount. The Court has not commenced examination of the facts of the case yet.

It should be noted that IFFP does not carry out operating activities and is not an entity material for the operations of the Company and its Group.

b) The financial results of AmRest's Czech operations translated into the złoty are affected by changes in the currency exchange rates used for currency translations. The appreciation of the Czech crown against the Polish złoty in 2006 had a positive effect on the results of the Czech operations disclosed in the financial statements. As at the end of 2006 the CZK/PLN exchange rate was higher by 4.8% compared with the end of 2005, while the 2006 average exchange rate increased by 1.8% on the 2005 average rate.

5.7. Investment Plans and Their Realization Assessment.

The AmRest Group goal is a further development of its core brands, KFC and Pizza Hut, through the opening the new restaurants and increasing the sales of already existing restaurants; development of the new brands – FreshPoint, Rodeo Drive, Burger King and Starbucks – and the regional expansion through the entering the new markets of Central and Eastern Europe.

Additionally the Company will continue the modernization program with regards to the selected restaurants at the level of maximum 2.5% of the Company's 2007 planned sales revenues. The material part of the renovation budget is dedicated to the modernization actions in Hungary.

The existing AmRest restaurant chain will be developed principally by opening in 2007 in total a dozen or so new Pizza Hut and KFC restaurants in Poland and the Czech Republic and several new restaurants in Hungar. The cost of opening a new Pizza Hut or KFC restaurant ranges from PLN 1.6m to PLN 2.8m, depending on the location and restaurant type.

A further development of Rodeo Drive and FreshPoint restaurants is contingent on the successful outcome of brand testing projects. During the brand testing phase, the Company intends to operate the total of 10 FreshPoint restaurants and 5 Rodeo Drive restaurants. On average, the cost of opening of a new Rodeo Drive restaurant ranges from PLN 3.0m to PLN 5.0m, depending on the restaurant's size, while the average cost of launching a FreshPoint restaurant amounts to approximately PLN 0.5m.

Under an agreement concluded with Burger King GmbH, AmRest intends to develop the Burger King chain in Poland. The first restaurant is planned to open up in the second quarter of 2006, and several successive ones – in 2007. The average cost of opening the new Burger King restaurant is close to the cost of KFC.

As part of its expansion in the region, AmRest also plans to launch a chain of restaurants in Bulgaria. The Company plans to open the first KFC restaurants on this market by the end of 2007.

It should be added that the plan of opening new restaurants will be adjusted on an on-going basis to reflect prevailing market conditions and the possibilities of finding new attractive locations in specific countries.

The substantial part of the AmRest 2007 capital expenditures will be spent on the new IT systems and integration of the currently existing systems. The main projects will include the introduction of the new Point of Sales system (POS), Enterprise Resource Planning system (ERP) and Business Intelligence system (BI). The new IT systems will be implemented to standarize the systems in all countries and to achieve better business process automation. These changes will increase the work effectiveness in the AmRest Group and will improve the control and monitoring of its business. The integration and improvement of the IT systems will be a platform for the further expansion and growth of AmRest.

The Management Board predicts that the long-term growth will be financed with the Company's own funds and additional external financing. The investments planned for 2007 will be financed mainly with the Group's own funds.

6. AMREST HOLDINGS N.V.: OUTLOOK FOR 2007

6.1. Internal and External Factors Material to the Development of the Company's Business in 2007

In the opinion of the Company's Management Board, the following factors will have a material bearing on the Company's development and performance in the future:

- **a) External factors:**
- competitiveness in terms of prices, service and food quality, as well as location;
- demographic changes, tendencies concerning the number and profile of the restaurants' customers as well as the number and location of the competition's restaurants;
- amendments to laws and regulations, directly affecting the functioning of the restaurants and their employees;
- changes in the occupancy costs (lease of property) and related costs;
- changes in prices of the ingredients used in preparing meals and changes in prices of packaging materials;
- changes in the overall economic conditions in Poland, the Czech Republic and Hungary as well as consumers' confidence, the level of disposable incomes and individual spending patterns.

b) Internal factors:

- recruiting and training employees needed to develop the existing and new restaurant chains;
- acquiring attractive locations;
- success in launching new restaurant chains and new products;
- developing an integrated IT system.

6.2. Key Risks and Threats to the Company

The Management Board of AmRest is responsible for maintaining the risk management system and internal control system as well as for reviewing their efficiency. These systems facilitate the identification and management of risk factors which could compromise the accomplishment of AmRest's long-term objectives. Nonetheless, the application of the systems does not fully eliminate the possibility of fraud or legal infringements. The Management Board conducted a review, analysis and rating of risk factors the Company is exposed to. Also, the Management Board reviewed the Company's control systems for 2006. This section presents the currently recognised major risk factors and threats. AmRest reviews and improves its risk management system and internal control system on an on-going basis.

a) Factors Outside of the Company's Control

There are a number of factors outside of the Company's control which affect AmRest's development strategy, based on launching new restaurants. These factors include: the ability to identify and secure suitable restaurant locations which the Company is able to acquire, the ability to obtain the required authorisations in due time, and possible delays in launching new restaurants.

b) Dependence on the Franchisor

AmRest manages KFC, Pizza Hut and Burger King restaurants as a franchisee. Therefore, numerous factors and decisions made in connection with AmRest's operations are determined by the limitations and specifications imposed by the franchisor and depend on its approval.

The term of each franchise agreement is ten years. AmRest has an option to extend the term by another ten years, provided that it complies with the terms and conditions of the agreements and other requirements, including the requirement to pay an extension fee. Notwithstanding the fulfilment of the abovementioned conditions, there can be no assurance that after the first two terms have expired a given franchise agreement is prolonged for another term. In the case of KFC and Pizza Hut restaurants, the initial term commenced in 2000, while for the Burger King restaurants the initial term will commence on the opening of the first restaurant under this brand in 2007.

c) Lack of Exclusivity Rights

The franchise agreements do not provide AmRest with any exclusivity rights in a given territory, protection or any other rights in the territory, region or market where the AmRest restaurants operate. However, in practice the entrance of an operator which could succesfully compete with the AmRest Group restaurants (with respect to the brands currently operated by the Company) is relatively unlikely, considering the Company's operational scale (including its broad distribution network).

d) Lease Agreements and Their Extension

Nearly all AmRest restaurants use leased premises. The majority of lease agreements are long-term agreements, concluded for at least a ten-year period beginning on the lease commencement date (assuming that all extension options are exercised on specified terms, and excluding those agreements which are renewed periodically unless terminated, and agreements concluded for an indefinite term). Under a number of lease agreements, AmRest holds the right to extend the term of the agreement, providing that the Company complies with the terms and conditions of the lease. Notwithstanding the fulfilment of such terms and conditions, there can be no assurance that AmRest will be able to extend the lease agreements on commercially reasonable terms. If there is no such possibility, the potential loss of key restaurant locations may have an adverse effect on AmRest's performance and operations.

Furthermore, under certain circumstances, AmRest may decide to close down a given restaurant, and the termination of the respective lease agreement on cost-effective terms may prove impossible. Such a situation may adversely affect the Company's performance and operations. Closing down of any restaurant requires the franchisor's approval, and there can be no assurance that such an approval will be obtained;

e) AmRest's Status of a Foreign Entity

The Company is a joint-stock company incorporated under the Dutch laws, therefore its internal relations are also subject to these laws. Polish investors should be aware that rights of shareholders attached to the Company shares are subject to Dutch laws and that there are numerous differences between the provisions of Dutch companies law and the Polish Companies Act. Lack of knowledge of Dutch regulations may impede exercising of rights attached to shares by Polish investors. Additionally, given the location of the Company's registered office, investors intending to lodge claims against AmRest may encounter difficulties relating to service of process and settling the dispute.

f) Health Concerns Relating to the Consumption of Food Products

Health concerns relating to chicken meat, which is the main ingredient of the KFC meals, may affect consumers' preferences. Consumers' preferences may also change as a result of dissemination by mass media of any adverse information about the quality of products, diseases caused by them and any other types of damage suffered because of dining at AmRest's or other KFC, Pizza Hut and Burger King franchisees' restaurants, or publication by the government or market segment analysts of unfavourable reports on products offered in these restaurants, on health issues and the manner of functioning of any one or more restaurants operated either by AmRest or its competitors. The Company mitigates this risk by using at the AmRest restaurants ingredients of the highest quality, sourced from proven and reputed suppliers, by complying with strict quality control and hygiene standards, and by applying the most advanced equipment and processes ensuring absolute safety of the meals.

g) Restrictions Imposed by Lenders

On April 4th 2005, AmRest Holdings N.V., American Restaurants Sp. z o.o. and American Restaurants s.r.o. (the Obligors) entered into a credit facility agreement providing for a PLN 110m loan (the amount was reduced to PLN 96m by way of Annex 2 of October 30th 2006).

Under the credit facility agreement, each of the Obligors has covenanted to observe certain restrictions on their ability to borrow money, incur capital expenditure, grant security and dispose of assets, and has also covenanted to comply with certain financial ratio tests. It is possible that these covenants could materially impair AmRest's ability to run its business in the future and any failure to comply with the covenants could cause an acceleration of loans granted under the facility, which in turn could have a material adverse affect on the financial condition and results of operations of AmRest.

h) Risks Related to the Development of New Brands

In line with its development plan, in 2007 AmRest intends to launch the Burger King brand. If the ongoing negotiations with Starbucks are successful, AmRest will begin intense work on the launch of the Starbucks brand as well. Concurrently, AmRest is developing AmRest's proprietary two new dining concepts, Freshpoint and Rodeo Drive (the first restaurants were opened in 2006). Because these concepts are completely new to the Company, there is a risk related to the level of demand and the reception of the products by consumers.

i) Risk Related to the Opening of a KFC Restaurant in Bulgaria

This will be the first AmRest's restaurant in a new geographical and political region. The investment entails the risks that the consumer preferences in Bulgaria may be different and that the Company may lack adequate knowledge of the market. Other risks involved include the local regulatory risk.

j) Foreign-Exchange Risk

Fluctuations of the exchange rate of the Czech crown against the US dollar may result in foreign-exchange differences related to the valuation of loans between the related parties. Abrupt appreciation of the US dollar against the Czech crown may have an adverse effect on the Company's results.

In addition, the rent due on a significant portion of the Group's restaurant leases is indexed to US dollar or Euro exchange rates. Abrupt appreciation of the US dollar or Euro against the Polish zloty may have an adverse effect on the results.

k) Risk Related to the Implementation of New IT Systems

The costs related to the implementation of new IT systems may have a short-term negative effect on the Company's performance. In a long-term perspective, the expected benefits will positively contribute to the Group's profitability.

l) Expiry of the Transitional Period with Reduced VAT Rate

The end of 2007 will be the end of the transitional period during which Poland may apply a reduced VAT rate of 7% on catering services. In 2008, the applicable rate will rise to 22%. Increased prices of catering services can lead to a temporary slackening of demand.

6.3. The Company's Development Directions and Strategy

Within the next few years AmRest plans to grow at the level of 20-25% a year in terms of its sales revenues. AmRest's strategy assumes developing and operating the large-scale (over USD 50 m of sales) branded restaurant chains with the internal rate of return (IRR) exceeding 20%. The Company's objective is to become the leading restaurant operator in Central and Eastern Europe.

AmRest focuses on the expansion of its activities in two restaurant market segments, namely Quick Service Restaurants and Casual Dining. The Company intends to continue its expansion into other countries of Central and Eastern Europe.

In the near future, AmRest will focus on the further development of its core brands, KFC and Pizza Hut, through the opening the new restaurants and increasing the sales of already existing restaurants; development of the new brands – FreshPoint, Rodeo Drive, Burger King and Starbucks – and the regional expansion through the entering the new markets of Central and Eastern Europe.

AmRest intends to continue to further improve profitability at the restaurant level and increase its operational efficiency. Concurrently, the Company expects that introducing new dining concepts will entail considerable costs related to their launch and the creation of an organisational structure necessary for their development. AmRest expects that these factors may have an adverse effect on the Group's profitability in the short term. Another important area with a bearing on the Group's development will be IT system integration and upgrading, to be completed by the end of 2008.

In 2007, the Group will continue to streamline its structure, by incorporating smaller companies into American Restaurants Sp. z o.o. or American Restaurants s.r.o., the largest of the Group's parties; the restructuring is aimed at lowering the general and administrative expenses.

AmRest is committed to continuing its efforts aimed at increasing value for customers. Through further improvement of the customer service, offering tasty dishes made with fresh ingredients, and introducing new products, the Company intends to raise its customers' awareness of the excellent value for money offered by the AmRest restaurants.

7. Statements of the Management Board

7.1. Statement on the Compliance with the *Dutch Corporate Governance Code*

As a company incorporated under the laws of the Netherlands, apart from applying Polish corporate governance rules, AmRest complies with Dutch corporate governance code by applying principles and best practice provisions that are applicable to the Management Board and Supervisory Board or by explaining why the company deviates therefrom. Although the Company tries to obey both Dutch and Polish Corporate Governance Codes, in case of conflicting rules AmRest, due to the fact that its shares are quoted on the Warsaw Stock Exchange and most of its operations is located in Poland, tends to choose the Polish best practices.

Dutch corporate governance code is fully applied with the exception of the following best practice provisions that are not fully applied:

Management Board

Best practice provision II.1.1: role and procedure
The Polish Corporate Governance Code (PCGC) does not assume any time limits concerning the appointment of the Management Board member. Therefore the Company has no specific limitations with regards to this issue.

Best practice provision II.1.7: role and procedure
According to the PCGC there is no limitation concerning management board members being involved as member of supervisory board of the other listed companies. However, any important positions held by management board members needs to be notified to the supervisory board of AmRest.

Best practice provision II.2.1: amount and composition of the remuneration
The options to acquire shares are conditional remuneration component. However, there are no performance criteria related to stock option plans. The vesting of options is conditioned upon the employment with the company. The vesting periods of options vary from 3 to 5 years. The grant of options is indirectly conditioned upon performance of particular employees and the decision of the Management Board.

Best practice provision II.2.9: determination and disclosure of remuneration
Since the PCGC does not apply such obligation no formal remuneration report of supervisory board is prepared. According to the PCGC, the Company discloses the annual remuneration of both the Supervisory Board and the Management Board Members in the Annual Directors' Report which constitutes a part of the Company's Annual Report published on the Warsaw Stock Exchange. Additionally the remuneration details are included in the Supervisory Board protocol.

Best practice provision II.2.11: determination and disclosure of remuneration
Since the PCGC does not apply such an obligation, apart from the total remuneration of management board members disclosed in the Annual Directors' Report, no further elements of the contracts of the management board members are made public.

Supervisory Board

Best practice provision III.1.1: role and procedure
There are no formal supervisory board bylaws that are made public. All the rules governing supervisory board's duties and responsibilities are covered in the company's Articles of Association.

Best practice provision III.1.2: role and procedure
Since the PCGC does not apply such an obligation, the Supervisory Board does not issue the report describing the Company's activities in the financial year. However, the Supervisory Board prepares only the evaluation of the Company's standing which is published in a manner of regulatory announcement just before the General Meeting of Shareholders.

Best practice provision III.3.4: expertise and composition
There are no limitations for supervisory board members with regards to number of supervisory boards of Dutch listed companies of which they may be a member. According to the PCGC, there are no limitations concerning this issue.

Best practice provision III.3.5: expertise and composition
The PCGC does not include any restrictions with regards to the maximum period of the Supervisory Board Member appointment. However, according to the Company's Articles of Association the Supervisory Board member can be appointed for a maximum period of 5 years.

Best practice provision III.5.1-13: composition and role of three key committees of the supervisory board
So far no separate committees have been created within the Supervisory Board. AmRest's Supervisory Board is of the opinion that current size of the Company's operations does not require the creation of such committees. The decision of setting up the audit and the remuneration committees will be made when the Company's operations size requires it.

Best practice provision III.7.3: remuneration
According to the PCGC, there are no restrictions concerning ownership of and transactions in securities of other listed companies by supervisory board members. However, AmRest bylaws cover restrictions and limitations concerning the ownership and transactions in AmRest's stock.

Best practice provision III.8.1: one-tier management structure
The PCGC does not include any regulations with regards to the management structure. The common practice in the region of Central and Eastern Europe (CEE) is that the chairman of the Management Board may also be an executive director. This practice is applied to the Company's Articles of Association.

Best practice provision III.8.4: one-tier management structure
The PCGC does not include any regulations with regards to the management structure, the common practice in the region of CEE anticipates that the member of the Management Board may also be an executive director. This practice is applied to the Company's Articles of Association.

The general meeting of shareholders

Best practice provision IV.1.1: powers
Since the PCGC does not specify any details with regards to the vote casts, the Company adopted the rule that all resolutions of General Meeting of Shareholders can be adopted by a simple majority of the votes cast, without a quorum being required.

Best practice provision IV.3.7: provision of information to and logistics of the general meeting of shareholders
The PCGC does not assume the existence of initial shareholders' circular. Since the Company is quoted on the WSE, prior to each General Meeting, the Company publishes the regulatory announcement including the drafts of the resolutions which are going to be submitted during the General Meeting. All regulatory announcements are available on the company's website.

Best practice provision IV.3.9: provision of information to and logistics of the general meeting of shareholders
According to the PCGC there is no obligation of providing the specific survey of all existing or potential anti-takeover measures.

Best practice provision IV.4.1-3: responsibility of institutional investors
The company's institutional investors have no legal obligation to publish their policy on the exercise of the voting rights for shares they hold in listed companies, how they implemented their policy in the year under review and how they voted as shareholders on the General Meeting of Shareholders. However, they are obliged to inform SEC how they voted as shareholders on the General Meeting of Shareholders and twice a year they include the information about their current share in the public companies.

The audit of the financial reporting and the position of the internal auditor function and of the external auditor

Best practice provision V.3.1: internal auditor function
It is a practice in CEE that the internal auditors report directly to the Management Boards, therefore the internal auditor's work schedule is drawn up by AmRest's Management Board.

7.2. Financial Statements – True and Fair View

To the best knowledge of the Management Board of AmRest Holdings N.V., the annual financial statements and the comparable data presented in the annual financial statements of the AmRest Group were prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, financial standing and financial results of the AmRest Group. This annual Directors' Report gives a true view of the developments, achievements and the situation of the AmRest Group, including the description of key risks and threats.

7.3. Appointment of the Entity Qualified to Audit Financial Statements

PricewaterhouseCoopers Sp. z o.o., the entity qualified to audit financial statements, which has audited the annual financial statements of the AmRest Group, was appointed in accordance with the applicable laws. The entity and the auditors performing the audit met the conditions necessary to issue an impartial and independent audit opinion in accordance with the applicable laws.

The agreement on the audit of the 2006 consolidated financial statements was executed on July 10th 2006 between the Company and PricewaterhouseCoopers Sp. z o.o., registered office at al. Armii Ludowej 14, Warsaw, Poland, which is an entity qualified to audit financial statements, entered in the list of entities qualified to audit financial statements under Reg. No. 144. The agreement provides for the audit of the Company's consolidated financial statements for the period January 1st – December 31st 2006 and for the review of the Company's consolidated financial statements for the period January 1st – June 30th 2006. The total fees payable to PricewaterouseCoopers for the audit and the review of the above Company's 2006 consolidtaed financial statements amounted to EUR 101 thousand, while the total fees paid in respect of other services rendered in 2006 amounted to EUR 5 thousand. Additionally PricewaterhouseCoopers N.V., seated in the Netherlandes, audits both the consolidated and stand-alone financial statements for the financial year ended as of 31 December 2006. The fees for these services amounted to EUR 24 thousand.

In 2005 the total fees with regards to the audit of the Company's consolidated financial statements paid to KPMG Audyt Sp. z o.o. amounted to EUR 182 thousand and EUR 45 thousand (with regards to other services).

Wrocław, May 8th 2007

Henry McGovern	Wojciech Mroczyński
AmRest Holdings N.V. Management Board Member	AmRest Holdings N.V. Management Board Member

Appendix 1 – Significant Agreements

1) Annex to the Distribution Agreement with McLane Polska

On March 23rd 2006, an annex to the Distribution Agreement of April 2nd 2003 between American Restaurants Sp. z o.o. and McLane Polska Sp. z o.o. of Błonie was signed. The annex, effective from August 1st 2006, extends the term of the Distribution Agreement and changes the amounts of: the minimum guaranteed quantity of AmRest's purchases from the Distributor, the Distribution Fee (and frequency of its calculation) and the Distribution Fee for export sales (to External Franchisees). The minimum guaranteed quantity of AmRest Poland's, the Franchisees' and the External Franchisees' purchases from the Distributor was reduced with effect from August 1st 2006 to 1.0m cubic feet *p.a.* In consideration for the services provided under the Distribution Agreement the Distributor is entitled only to a fee computed as defined in an appendix to the Agreement (Distribution Fee), paid to the Distributor by American Restaurants Sp. z o.o., the Franchisees and the External Franchisees. By virtue of the annex, the Distribution Fee was reduced from August 1st 2006 and the Agreement term was extended by two years, i.e. until August 1st 2008. The parties agreed to discuss the option to extend the Agreement no later than thirteen months prior to its expiry. Unless by December 1st 2007 the parties agree in writing to extend its term, the Agreement will automatically expire on August 1st 2008. For a description of the Distribution Agreement see Section 9.2.1. of the Prospectus.

2) Annex to the Credit Facility Agreement with ABN AMRO

On October 30th 2006, Annex No. 2 to the Loan Agreement of April 4th 2005 between AmRest Holdings N.V., American Restaurants Sp. z o.o., American Restaurants s.r.o. and ABN AMRO Bank N.V. was signed. Pursuant to he Annex, the credit facility limit was reduced to PLN 96m, mainly by reducing the Tranche B limit to PLN 20m. Under the Annex, Tranche B is available until March 31st 2009. Concurrently, December 31st 2006 was set as the final repayment date for of the part of Tranche A available to American Restaurants Sp. z o.o., in the amount of PLN 3m, whereas the final repayment date of the part of Tranche A made available to American Restaurants s.r.o., amounting to CZK 518m, was postponed until March 31st 2013. The amounts drawn by American Restaurants s.r.o. will be repaid in equal quarterly instalments starting from March 31st 2008. The Credit Facility Agreement was described in Current Report No. 6/2005 of April 5th 2005.

3) Development Agreement with Burger King

On March 8th 2007, AmRest concluded a development agreement with Burger King Europe GmbH. The Parties to the Agreement are as follows: American Restaurants Sp. z o.o. of Wrocław, Poland ("Developer"), and Burger King Europe GmbH of Zug, Switzerland ("BKE"). Under the Agreement the Developer has a non-exclusive right to open and operate on a franchise basis Burger King restaurants in Poland ("Development Area").

The Developer has a right of first refusal in relation to any new Burger King restaurant in Poland proposed to be developed by BKE itself or through a third party, with the exception of certain institutional locations. AmRest Holdings N.V. ("Guarantor") has guaranteed to BKE that the Developer will perform all it obligations under the Development Agreement. The Development Agreement was concluded for the period of 5 years from the Agreement date. Development Agreement provides, among other things, that:

a) During the 2 years after the first opening of a Burger King restaurant by Developer, BKE shall contribute an amount of 2.5% of the calendar monthly Gross Sales of all Burger King restaurants operated by Developer to the advertising and sales promotion fund mentioned in the Franchise Agreement. During the third year after the first opening of a Burger King restaurant by Developer, BKE shall contribute an amount of 2% of the calendar monthly Gross Sales of all Burger King Restaurants operated by Developer to the advertising and sales promotion fund.

b) During the initial 5 years term the initial franchise fee payable by Developer shall be $25,000 for each Burger King restaurant with a franchise agreement providing for a term of 10 years (plus a further renewal franchise fee of $ 25,000 in case of a 10 years renewal of the franchise agreement at the Developer's option). The initial franchise fee shall be reduced by 50 % for the development of each Burger King restaurant which exceeds the number of Burger King restaurants to be developed and opened by Developer according to the development schedule.

c) The Developer agrees to open and operate Burger King restaurants in strict accordance with the development schedule which includes the minimal numbers of openings in each development year as defined in the Development Agreement.

d) The Developer oblige to comply with the development procedures and requirements as set forth in the Development Agreement. The development procedures includes, among other things, the franchise approval and the site approval.

e) The Developer and the Guarantor shall at all times maintain in strict confidence BKE's operational manuals, marketing information and methods, and all information and knowledge relating to the methods of operating and the functional know-how relating to Burger King restaurants revealed by BKE to the Developer.

f) Developer is responsible for all losses, damages and/or contractual liabilities to third parties arising out of or relating to any of the obligations, undertakings, promises and representations of Developer under this agreement, and for all claims or demands for damages to property or for injury, illness or death of persons directly or indirectly resulting therefrom.

4) Framework Conditions of Franchise Agreements with Burger King

On March 9th 2007, AmRest published information concerning framework terms and conditions of the Franchise Agreements concluded with Burger King Europe GmbH each time a new Burger King restaurant is opened. The parties to the Agreement will be American Restaurants Sp. z o.o. of Wrocław (as the Franchisee) and Burger King Europe GmbH of Zug, Switzerland (as the Franchisor). Under the Agreement, the Franchisee is granted the licence for the use of Burger King's registered trademarks and the Burger King system for the purpose to operate Burger King restaurants. AmRest Holdings N.V. (the Guarantor) guarantees to the Franchisor that the Franchisee will perform all its obligations under the Franchise Agreement. The licence is granted for 10 years from the date on which a given restaurant is launched. The Franchisee has the right to extend the Agreement for another 10 years upon the fulfilment of certain conditions. The Franchise Agreement provides, among other things, that:

a) Franchisee must comply strictly with all Burger King requirements concerning building and premises, signs, equipment, menu, service, hygiene, uniforms, advertising and promotional materials, sources of supply etc.

b) Franchisee must pay monthly continuing fees to the Franchisor equal to 5% of the Gross Sales of the Burger King restaurant operated by Franchisee.

c) Franchisee must pay monthly continuing advertising and sales promotion fees equal to 5% of the Gross Sales of the Burger King restaurant operated by Franchisee.

d) Employees of Franchisee must participate in initial and ongoing training programs as specified by the Franchisor.

e) Franchisee, during the term of the agreement, shall not directly or indirectly engage in the operation of any restaurant, except as licensed by Franchisor, which utilizes or duplicates the Burger King business.

f) Franchisee must comply with all of the other requirements and restrictions set out in the Franchise Agreement.

5) Major Insurance Agreements Concluded in 2006 by the AmRest Group Companies:

a) American Restaurants Sp. z o.o.:
   - One-year insurance policy against liability for damages and product liability – concluded with T.U. Allianz Polska S.A.
   - One-year property insurance policy (covering property, electronic equipment and loss of earnings) – concluded with T.U. Allianz Polska S.A.

b) American Restaurants s.r.o.:
  - One-year insurance policy against liability for damages and product liability – concluded with UNIQA Pojišťovna, A.S.
  - One-year property insurance policy (covering property and loss of earnings) – concluded with UNIQA Pojišťovna, A.S.

c) American Restaurants, kft:
  - One-year insurance policy against liability for damages and product liability – concluded with UNIQA Biztosító Zrt.
  - One-year property insurance policy (covering property) – concluded with UNIQA Biztosító Zrt.

Appendix 2 – Related Party Agreements

1) On February 3rd 2006, American Restaurants Sp. z o.o., a subsidiary, acquired 10% of shares in SCM Sp. z o.o., with a par value of PLN 10,000, thereby increasing its shareholding to 45%. Under the agreement of April 29th 2005, SCM Sp. z o.o. provides to American Restaurants Sp. z o.o. services which consist in intermediation and negotiation of terms of supplies for the restaurants, including the negotiation of terms of distribution agreements. In consideration for the services received, American Restaurants Sp. z o.o. is to pay fees of 1.5% of the value of ordered products or 2% of the value of ordered restaurant equipment. Under the agreement SCM is to be the sole provider of this type of services to American Restaurants Sp. z o.o. The agreement was concluded for six years, with an option to extend its term upon a written notice. Under the agreement, American Restaurants Sp. z o.o. agreed to order products and equipment of the minimum value of EUR 27.5m in each 12 months during the agreement term. The services are to be provided on an SLA basis, which means that American Restaurants Sp. z o.o. may terminate the agreement if the quality of services deteriorates in relation to the standards stipulated in the agreement. The estimated value of the agreement over its term is PLN 10.5m.

2) April 1st 2006 was the effective date of release of the Company from debt under agreements on release from debt received on August 4th 2006 from the Company's shareholder, International Restaurants Investments, LLC ("IRI"). The agreements cover loans advanced in previous years for a total of USD 818 thousand and EUR 38 thousand along with accrued interest. These amounts also include long-term loans granted by Yum! With effect from April 1st 2006, Yum! transferred its receivables under these loans onto IRI. The release from debt obligations increased the Company's financial income by PLN 3,396 thousand, which had a positive effect on the net profit recorded by the Company in the second quarter and the full year 2006.

3) On June 30th 2006, AmRest (the Buyer) and Central European Franchise Group, Ltd (the Seller) concluded an agreement whereby AmRest acquired 100% of shares in Kentucky System Kft. of Budapest (in September 2006, the company's name was changed to American Restaurants, Kft). The selling price was USD 6.5m. Following the purchase of all shares in Kentucky System, AmRest came to own 13 Pizza Hut restaurants and four KFC restaurants in Hungary. The execution of the agreement represents an important step towards the implementation of the AmRest Group's strategy aimed at strengthening its market position in Central and Eastern Europe. The acquisition of restaurants in Hungary provides an opportunity for further expansion through the development of existing and new restaurant chains on the Hungarian market. See Note 3 for more details of the transaction.

4) On September 22nd 2006, American Restaurants Sp. z o.o. and American Restaurants Kft. concluded a loan agreement. By virtue of an annex of December 20th 2006, the maximum loan amount was increased from PLN 3m to PLN 15m. The Parties also agreed to postpone the repayment date from December 31st 2006 to December 31st 2007.

5) On October 30th 2006, American Restaurants Sp. z o.o., the Company's subsidiary, acquired 1,000 shares in Doris 2006 Sp. z o.o. with a par value of PLN 50 per share, representing 100% of this company's share capital. The total price of the shares was PLN 490,000. Doris 2006 Sp. z o.o. is the lessee of premises located at ul. Chmielna 2 in Warsaw. The lease agreement provides for the possibility of conducting catering business on the premises. AmRest intends to open one of its restaurants at this location. See Note 3 for more details of the transaction.

6) On December 22nd 2006, a Cash Pooling Agreement was concluded with ABN AMRO Bank (Polska) S.A. of Warsaw. Apart from AmRest, the parties to the agreement also included the following subsidiaries: American Restaurants Sp. z o.o., American Restaurants s.r.o. and Galeria Arka Sp. z o.o. The agreement was concluded to increase the efficiency of cash management by the members of the AmRest Group. The agreement was concluded for an indefinite period and may be terminated by either party subject to a 30 days' notice period.

AmRest Holdings N.V.

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

PRICEWATERHOUSECOOPERS
Initialled on behalf of
PricewaterhouseCoopers
Accountants N.V.
for identification purposes only
Rotterdam
8/5-07

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AmRest Holdings N.V.

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

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

See accompanying notes to the consolidated financial statements

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AmRest Holdings N.V.

Consolidated income statement for the twelve months ended 31 December 2006

in thousands of Polish zloty

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

See accompanying notes to the consolidated financial statements.

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

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

See accompanying notes to the consolidated financial statements.

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

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

See accompanying notes to the consolidated financial statements

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1 Company overview and significant accounting policies

(a) Background

Amrest Holdings N.V. (the "Company") was established as a joint stock company in October 2000 in the Netherlands. The Company's head office is located in Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands. The Company's corporate offices are located in Wroclaw, Poland.

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

The Consolidated Financial Statements as at and for the twelve months ended 31 December 2006 comprise the data on the Company, its subsidiaries and on the Group's equity interest in associates.

The following Consolidated Financial Statements were approved by the Management Board on 8 May 2007.

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

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

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

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

In conjunction with the listing of the Company's shares on the WSE, YUM! sold all of its shares in the Company and is no longer a shareholder. Moreover, IRI also sold part of its shares as a result of the Company's IPO on the stock exchange.

As at 31 December 2006 the Company's largest shareholder with a 37,5% voting rights and ownership interest remains IRI.

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

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

(in thousands of Polish zloty unless otherwise stated)

The table below presents a summary of the subsidiaries included within the Group at 31 December 2006:

Name of company	City and country of incorporation	Principal activity	Parent company	Ownership interest and voting rights	Date of effective control
American Restaurants Sp. z o.o.	Wroclaw, Poland	Operating Pizza Hut and KFC restaurants in Poland	AmRest Holdings N.V.	100.00 %	December 2000
American Restaurants s.r.o.	Prague, Czech Republic	Operating Pizza Hut and KFC restaurants in the Czech Republic	AmRest Holdings N.V.	100.00 %	December 2000
American Restaurants Kft	Budapest, Hungary	Operating Pizza Hut and KFC restaurants in Hungary	American Restaurants Sp. z o.o.	100.00 %	30 June 2006
Galeria Arka Sp. z o.o.	Warsaw, Poland	Lessee of a location where a restaurant is planned to be opened	American Restaurants Sp. z o.o.	100.00 %	March 2005
Amrest Ukraina t.o.w.	Kiev, Ukraine	Established to develop and operate Pizza Hut restaurants in the Ukraine	American Restaurants Sp. z o.o.	100.00 %	December 2005
International Fast Food Polska Sp. z o.o.	Wroclaw, Poland	No current activities	American Restaurants Sp. z o.o.	100.00 %	January 2001
Pizza Hut s.r.o.	Prague, Czech Republic	No current activities	American Restaurants s.r.o.	99.973%	December 2000
			American Restaurants Sp. z o.o.	0.027%	
Fried Chicken s.r.o.	Prague, Czech Republic	No current activities	Pizza Hut s.r.o.	100.00%	May 2005
Doris 2006 Sp. z o.o.	Warsaw, Poland	Lessee of a location where a restaurant is planned to be opened	American Restaurants Sp. z o.o.	100.00 %	October 2006
Grifex I Sp. z o.o.*	Wroclaw, Poland	Operates a childrens' activity centre in Warsaw which includes a KFC restaurant	American Restaurants Sp. z o.o.	48.00 %	September 2003

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

In the current period subsidiaries Kentucky System Kft (Hungary) and Doris 2006 Sp. z o.o. (Poland) were acquired. See (Note 4). There were no other material changes in the structure of the Group.

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The Group's associated companies at 31 December 2006 accounted for under the equity method are as follows:

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

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

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(b) Statement of compliance

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

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

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

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

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

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- IFRIC 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management do not expect the interpretation to be relevant for the Group; and

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

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

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

- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that standard should not have a significant impact on disclosure. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

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

(c) Basis of preparation

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

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

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

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

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 33.

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

(d) Basis of consolidation

Subsidiaries

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

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

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

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

Transactions and minority interests

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

Associates

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

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

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

(e) Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Functional currency of the Polish operations is the Polish Zloty (PLN), the functional currency of the Czech operations is the Czech Crown (CZK), while the functional currency of the Hungarian operations is the Hungarian Forint (HUF).

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

Foreign currency transactions

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

Financial statements of foreign operations

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

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

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

None of the foreign operations has a currency of a hyperinflationary economy.

(f) Franchise, license and other fees

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

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

The initial fees paid are approximately USD 40 900 per restaurant and renewal fees are 50% of the initial fees, adjusted to reflect changes in the US Consumer Price Index during the term of the relevant franchise.

(g) Property, plant and equipment

Owned assets

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

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

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

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

Restaurant development assets

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

Leased assets

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

Subsequent costs

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

Depreciation

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

The estimated useful lives are as follows:

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

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

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

(h) Intangible assets

Computer software

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

Favourable leases

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

Trademark

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

Rights to use Pizza Hut and KFC trademarks

See accounting policy (f) above.

Other intangible assets

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

Amortization

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

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

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

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

(i) Goodwill

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

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

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

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

j) Financial assets

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

Available-for-sale financial assets

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

Financial assets at fair value profit or loss

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

Held-to-maturity financial assets

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

Loans and receivables

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

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

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

(k) Trade and other receivables

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

(l) Inventories

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

(m) Cash and cash equivalents

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

(n) Impairment

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

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

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

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

For restaurants for which there is an indicator of potential impairment, discounted estimated cash flows are used to assess the recoverable amount of the related assets. The impairment evaluation is based on the estimated cash flows from continuing operation of the restaurant and taking into account the expected terminal value.

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

Reversals of impairment

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

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

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

(o) Interest bearing loans and borrowings

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

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

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

(p) Share capital

Ordinary shares are classified as equity.

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

(q) Employee benefits

Share-based compensation

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

Long-term service benefits

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

Pension accounting

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

(r) Provisions

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

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

Site restoration

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

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

(s) Trade and other payables

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

(t) Revenue recognition

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

(u) Operating lease, occupancy cost

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

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

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(v) Income tax

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

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

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

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

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

(w) Derivative financial instruments

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

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

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

(x) Segment reporting

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

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

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

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(z) Business combinations involving entities under common control

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

2 Corrections

a) Correction of accounting treatment for lease arrangement

In 2006, the Group concluded that the leasing contract for land and building related to one of the restaurants located in the Czech Republic was inappropriately accounted for in previous years as an operating lease. According to the *IAS 17 Leases*, the above mentioned arrangement meets the criteria of finance lease and should be classified as such. The arrangement transfers ownership of the property to the lessee by the end of the lease term. In order to ensure comparability of the prior years' data, appropriate retrospective adjustment has been made to the consolidated balance sheet, consolidated income statement, consolidated cash flow and to the notes to the consolidated financial statements. The aim of the adjustments was to present the transaction as if it has been classified as finance lease from the beginning of the earliest period presented. Adjustment to previously published financial statements related to the change in the accounting treatment of the lease arrangement is presented in the table below:

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

	1 January 2005
Adjustment to the consolidated balance sheet:	
Increase of tangible fixed assets (cost – 3 482 TPLN, accumulated depreciation – 532 TPLN (Note 10)	2 950
Increase of accumulated deficit	440
Decrease of translation reserve	(22)
Increase of finance lease liabilities	(3 368)

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	31 December 2005
Adjustment to the consolidated balance sheet:	
Increase of tangible fixed assets (cost – 3 450 TPLN, accumulated depreciation – 667 TPLN (Note 10)	2 783
Increase of deferred tax asset	10
Increase of accumulated deficit	440
Increase of loss of the current year	85
Decrease of translation reserve	(36)
Increase of finance lease liabilities (short term portion: 45 TPN, long term portion: 3 237 TPLN (Note 26)	(3 282)

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

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

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

3 Segment reporting

Geographical segments

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

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

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

Geographical segment data as at and for the twelve months ended 31 December 2006 and comparable period ended 31 December 2005 is as follows:

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

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

Capital investment comprises additions of property, plant and equipment (Note 10), additions of intangible assets (Note 11) and additions of goodwill (Note 12).

The unallocated column relates to corporate assets, liabilities (mainly borrowings) and transactions of AmRest Holdings N.V., AmRest Ukraine t.o.w., corporate assets and liabilities of American Restaurants Kft. and amounts relating to income tax.

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

4 Acquisition of subsidiaries and associates

Acquisition of Kentucky System Kft.

On 30 June 2006 the Group acquired 100% shares in equity and voting rights of Kentucky System Kft. (current name: American Restaurants Kft.) with registered office in Budapest. Following the transaction, the Group became the owner of 13 Pizza Hut restaurants and 4 KFC restaurants in Hungary. Running the above mentioned restaurants is the main activity of this company. The purchase price amounted to USD 6 500 000 and was paid in cash.

The transaction marked another step in the strengthening of the AmRest Group's market position in the Central and Eastern Europe and in the implementation of the Group's strategy.

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

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

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

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

If the acquisition presented above had occurred on 1 January 2006, estimated Group revenue would have been 648 765 TPLN, and profit before allocations would have been 37 978 TPLN. These amounts have been calculated using the Group's accounting policies.

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

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

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

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

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

(in thousands of Polish zloty unless otherwise stated)

Other transactions

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

5 Operating expenses

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

Total restaurant expenses	543 924	434 930
Depreciation and amortisation expense (G&A)	3 416	2 710
Other general and administrative expenses	41 290	35 949
Initial public offering expenses	-	1 937
	588 630	475 526

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

Impairment losses recognized in 2006 and 2005 relate primarily to property, plant and equipment of underperforming restaurants where either a decision has been made to close the restaurant or the restaurant assets or a portion of the assets (primarily leasehold improvements), were not considered to be recoverable based on an analysis of future estimated discounted cash flows. The estimates of recoverable amount were based on the restaurants value in use, determined using a discount rate of approximately 10,9%.

6 Other operating income

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

7 Finance income

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

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8 Finance costs

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

9 Taxation

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

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

	Netherlands	Poland	Czech Republic	Hungary	Ukraine
2006	29.6%	19%	24%	16%	20%
2005	31.5%	19%	26%	N/a	20%

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

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

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

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

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The weighted average applicable tax rate was 19,2% (31.12.2005: 44,3%). The decrease was caused by a change in the profitability of the Group's subsidiaries in the respective countries.

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

	2006	2005
Deferred tax asset		
Deferred tax asset to be recovered after more than 12 months	350	8 057
Deferred tax asset to be recovered within 12 months	8 986	3 483
	9 336	11 540
Deferred tax liability		
Deferred tax liability to be recovered after more than 12 months	40	760
Deferred tax liability to be recovered within 12 months	720	503
	760	1 263

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

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

Temporary differences before offsetting are as follows:

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

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

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

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

At 31 December 2006, the Group has recognized a deferred tax asset relating to 4 730 TPLN of the above tax loss carry forwards related mainly to "Poland" segment, based on its forecasts of stable future taxable income over the allowable loss carry forward period. No deferred tax asset has been recognized with respect to the remaining tax losses carry forwards related to entities located in other, than Poland, countries (Hungary, Netherlands and Ukraine) due to uncertainty regarding their realization. The Group does not consider the recognition of these losses as deferred tax asset in foreseeable future.

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10 Property, plant and equipment

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

2006	Land	Buildings & restaurant development assets	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
Acquisition cost							
Balance at 31/12/2005	1 124	225 866	119 480	688	5 338	6 354	358 850
Reclassification of operating lease to finance lease (Note 3)	788	2 612	-	-	50	-	3 450
Balance at 1/1/2006 (restated)	1 912	228 478	119 480	688	5 388	6 354	362 300
Acquisitions (Note 4)	-	3 565	1 064	113	837	-	5 579
Additions	-	5 802	13 028	111	1 305	34 199	54 445
Disposals	-	(4 477)	(1 516)	(210)	(846)	(1 287)	(8 336)
Transfers between groups	-	14 904	906	226	2 564	(18 600)	-
Transfers to assets held for sale (Note 19)	(1 004)	(3 172)	-	-	-	-	(4 176)
Exchange rate differences	38	2 774	2 489	12	187	217	5 717
Balance at 31/12/2006	946	247 874	135 451	940	9 435	20 883	415 529
Accumulated depreciation							
Balance at 31/12/2005	-	104 023	72 209	523	3 559	-	180 314
Reclassification of operating lease to finance lease (Note 3)	-	620	-	-	47	-	667
Balance at 1/1/2006 (restated)	-	104 643	72 209	523	3 606	-	180 981
Additions	-	23 477	12 844	143	1 021	-	37 485
Disposals	-	(2 442)	(846)	(154)	(446)	-	(3 888)
Transfers to assets held for sale	-	(315)	-	-	-	-	(315)
Exchange rate differences	-	1 162	1 481	6	133	-	2 782
Balance at 31/12/2006	-	126 525	85 688	518	4 314	-	217 045
Impairment losses							
Balance at 1/1/2006	-	5 450	-	-	-	1 728	7 178
Additions	-	2 217	-	-	23	-	2 240
Decreases	-	(2 174)	-	-	-	(521)	(2 695)
Transfers between groups	-	32	-	-	-	(32)	-
Exchange rate differences	-	16	14	-	10	16	56
Balance at 31/12/2006	-	5 541	14	-	33	1 191	6 779
Net book value 1/1/2006	**1 912**	**118 385**	**47 271**	**165**	**1 782**	**4 626**	**174 141**
Net book value 31/12/2006	**946**	**115 808**	**49 749**	**422**	**5 088**	**19 692**	**191 705**

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2005	Land	Buildings & restaurant development assets	Machinery & equipment	Vehicles	Other tangible assets	Assets under construction	Total
Acquisition cost							
Balance at 31/12/2004	1 310	212 672	108 226	860	5 635	9 249	337 952
Reclassification of operating lease to finance lease (Note 3)	796	2 636	-	-	50	-	3 482
Balance at 1/1/2005 (restated)	2 106	215 308	108 226	860	5 685	9 249	341 434
Acquisition	-	6 012	1 428	22	242	87	7 791
Additional additions	-	8 072	9 708	-	286	16 529	34 595
Disposals	-	(6 425)	(4 326)	(194)	(1 328)	(1 710)	(13 983)
Transfers between groups	-	12 473	4 800	-	503	(17 776)	-
Transfers to assets held for sale (Note 19)	(183)	(6 566)	-	-	-	-	(6 749)
Exchange rate differences	(11)	(396)	(356)	-	-	(25)	(788)
Balance at 31/12/2005	1 912	228 478	119 480	688	5 388	6 354	362 300
Accumulated depreciation							
Balance at 31/12/2004	-	91 156	64 980	490	4 037	-	160 663
Reclassification of operating lease to finance lease (Note 3)	-	494	-	-	38	-	532
Balance at 1/1/2005 (restated)	-	91 650	64 980	490	4 075	-	161 195
Additions	-	18 424	11 793	91	326	-	30 634
Disposals	-	(3 869)	(4 344)	(58)	(795)	-	(9 066)
Transfers to assets held for sale	-	(1 426)	-	-	-	-	(1 426)
Exchange rate differences	-	(136)	(220)	-	-	-	(356)
Balance at 31/12/2005	-	104 643	72 209	523	3 606	-	180 981
Impairment losses							
Balance at 1/1/2005	-	6 662	-	-	-	1 729	8 391
Additions	-	626	-	-	-	-	626
Disposals	-	(1 838)	-	-	-	-	(1 838)
Exchange rate differences	-	-	-	-	-	(1)	(1)
Balance at 31/12/2005	-	5 450	-	-	-	1 728	7 178
Net book value 1/1/2005	**2 106**	**116 996**	**43 246**	**370**	**1 610**	**7 520**	**171 848**
Net book value 31/12/2005	**1 912**	**118 385**	**47 271**	**165**	**1 782**	**4 626**	**174 141**

(in thousands of Polish zloty unless otherwise stated)

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

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

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

BRAK TŁUMACZENIA Z POLSKIEJ WERSJI FRAGMENTU TEXTU STR 35

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

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

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

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

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11 Other intangible assets

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

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

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

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

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

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12 Goodwill

Changes in goodwill can be presented as follows:

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

Goodwill in the amount of 18 666 TPLN (18 524 TPLN as at 31 December 2006 after adjustments for negative foreign exchange differences of 142 TPLN) relates to the acquisition of American Restaurants Kft in June 2006, described in Note 4, whereas goodwill in the amount 4 819 TPLN (4 992 TPLN as at 31 December 2005 after adjustments for positive foreign exchange differences of 227 TPLN) relates to the acquisition of miklik's food s.r.o. in May 2005.

Impairment tests for cash-generating units containing goodwill

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

Segment Reporting.

The recoverable amount of the cash generating unit was based on a calculation of value in use. This calculation uses cash flow projections based on past performance and expectations for the market development and the five-year business plan. A pre-tax discount rate of approximately 10.9 per cent has been used in discounting the projected cash flows. Budgeted gross margin was assumed at the level of about 8% and growth rate used to extrapolate cash flow beyond budget period was 5%. Similar assumptions were for test for impairment of goodwill on acquisition of American Restaurants Kft. See also Note 33.

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13 Other non-current assets

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

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

14 Inventories

Inventories at 31 December 2006 and 31 December 2005 comprise primarily food and packaging materials used in restaurant operations. Inventories are stated net of provisions. The balance of provisions amounted to 795 TPLN and 594 TPLN as at 31 December 2006 and 31 December 2005, respectively. In the 12 months period ended 31 December 2006 the amount of provisions created was 201 TPLN (previous period: 434 TPLN) (Note 3, 5). Inventories with a value of 6 383 TPLN (31 December 2005: 5 973 TPLN) are pledged as security for loan received from ABN Amro Polska (Note 21).

15 Trade and other receivables

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

16 Other current assets

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

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17 Cash and cash equivalents

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

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

18 Held-to-maturity financial assets

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

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

19 Assets held for sale

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

BRAK TŁUMACZENIA FRAGMENTU TEXTU Z POLSKIEJ WERSSJI STR 40

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

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

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

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

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20 Equity

Share capital

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

As of 31 December 2006, there are 13 500 000 shares issued and outstanding. All issued shares are fully paid. The authorized shares are 15 000 000 shares.

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

Other reserves

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

Translation Reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations of the Company into PLN.

21 Interest-bearing loans and borrowings

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

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

Current	2006	2005
Bank loans	918	18 321
	918	18 321

Bank loans

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

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

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According to the loan agreement with ABN Amro Bank N.V. dated 4 April 2005, the Group is required to maintain certain financial ratios as specified in the agreement. These include net debt index, (the ratio of net debt to EBITDA), interest coverage and the balance sheet structure (the net fixed assets defined as total consolidated equity less net intangible assets and the net goodwill to total assets).

Please refer to Note 28 for details regarding security pledged for the above loans.

Loans from non-related parties

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

Loans from related parties

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

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

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

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

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

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

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

22 Employee benefits

Employee benefits consist of long term service benefits and two share option plans.

Long term service employee benefits

In accordance with the Company's employment regulations, certain employees have the right to jubilee payments for long-term employment in accordance with the Group's employment regulations. These employees receive a lump sum in local currency equivalent to USD 300 after the completion of 5 years of employment and a lump sum in local currency equivalent to USD 1 000 after the completion of 10 years of employment.

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The Group has made an accrual of 913 TPLN for the jubilee obligation as of 31 December 2006 and 791 TPLN as of 31 December 2005. Actuarial assumptions: discount rate: 7.7 and expected turnover % per year: 40.

Stock option plan 1

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

Stock option plan 2

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

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

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

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

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

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

	Granted in the period from 1/1/2006 to 30/12/2006	Granted in the period from 1/1/2005 to 31/12/2005		Granted till the end of 2004
	Plan 2	Plan 2	Plan 1	Plan 1
Average fair value at grant date	PLN 15.5	PLN 8.9	PLN 6.8	PLN 6.6
Average share price at grant date/date of valuation	PLN 48.3	PLN 25.7	n/a	n/a
Average exercise price	PLN 48.3	PLN 24.0	PLN 18.6	PLN 18.6
Expected volatility (expressed as weighted average volatility used in the modelling under the trinomial tree model)*	31%	40%	40%	40%
Expected option life (expressed as weighted average life used in the modelling under the trinomial tree model	9.9 years	9.9 years	7.0 years	7.5 years
Expected dividends (commencing 2008)	18.8%	18.8%	19.4%	19.4%
Risk free interest rate (based on interbank interest rates)	4.98%	4.5%	4.5%	5.8%

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

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

Expenses recognized related to share-based payments plans in 12 months period ended 31 December 2006 and 31 December 2005 respectively, can be summarized as follows:

	2006	2005
Value of employee services	497	203
	497	203

23 Provisions

The tables below present a roll forward of provisions:

31 December 2006	01.01.2006	Additions	Used	Released	Translation reserve	31.12.2006
Onerous lease contracts	3 150	909	(323)	(449)	35	3 322
Provision for legal claims	1 540	703	-	-	-	2 243
	4 690	1 612	(323)	(449)	35	5 565
31 December 2005	**01.01.2005**					**31.12.2005**
Onerous lease contracts	1 482	1 668	-	-	-	3 150
Other	1 540	-	-	-	-	1 540
	3 022	1 668	-	-	-	4 690

Provision for onerous lease contracts

As at the balance sheet date the Group recognised provision for loss making lease contracts. The contracts are mainly related to locations, where the Group does not operate restaurants but subleases locations to other entities at unfavourable conditions. Provision was calculated using 10.9% discount rate. The increase of discount rate by 10% (from 10.9% to 12%) would result in a decrease of provision by 25 TPLN.

Reserve for legal claims

From time to time, the Group is involved in routine litigation and proceedings during the normal course of business. As of the balance sheet date, the Group has recorded the provision for legal claims in amount, which represents the Group's best estimate of the probable loss expected to result from such litigations or proceedings. The Group created in the current period a provision in the amount of 703 TPLN.

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24 Other non-current liabilities

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

25 Trade and other accounts payable

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

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

26 Finance lease liabilities

Finance lease liabilities – present value of liability:

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

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Finance lease liabilities – minimum lease payments:

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

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

27 Operating leases

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

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

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

For numerous restaurants (mainly for those located in shopping malls) the rental fees are composed of a fixed fee and a fee contingent on the revenues of the restaurant. The contingent fee typically represents 2.5% to 9% of restaurant sales. Operating lease expenses (divided into fixed and contingent part) for the 12 months period ended 31 December 2006 and 2005 respectively are as follows:

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

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

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

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

28 Loan security

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

29 Earnings per share

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

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

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

30 Commitments and Contingencies

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

(in thousands of Polish zloty unless otherwise stated)

31 Investments in associates

Changes in investments in associates can be presented as follows:

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

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

Name of associate	Country of incorporation	Assets	Liabilities	Revenues	Profit/ (loss)	% of interest held
31 December 2006						
Worldwide Communication Services LLC	USA	156	82	-	(83)	33.33
Global Communication Services Sp. z o.o. in liquidation	Poland	41	98	-	(7)	33.33
Synergy Marketing Partners Sp. z o.o	Poland	2 758	2 664	19 525	18	26.66
Red 8 Communications Group Sp. z o.o.	Poland	2 410	882	10 458	445	17.33
Synergy Marketing Partners s.r.o.	Czech	664	653	775	(17)	24.00
SCM Sp. z o.o	Poland	2 518	301	4 602	1 481	45.00
31 December 2005						
Worldwide Communication Services LLC	USA	265	91	230	357	33.33
Global Communication Services Sp. z o.o. in liquidation	Poland	51	100	173	(28)	33.33
Synergy Marketing Partners Sp. z o.o	Poland	3 307	3 100	19 844	126	26.66
Red 8 Communications Group Sp. z o.o.	Poland	1 594	511	11 620	538	17.33
Synergy Marketing Partners s.r.o.	Czech	655	626	-	-	24.00
SCM Sp. z o.o	Poland	927	191	1 538	636	35.00

32 Related parties

Trade and other receivables from related parties:

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

(in thousands of Polish zloty unless otherwise stated)

Trade and other payables to related parties:

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

Loans granted by related parties:

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

Sales of goods and services:

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

Purchases of goods and services:

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

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

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

Key shareholder and its related parties

ARC

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

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

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

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

The Group also received management and consultancy services provided by ARC on a non-exclusive basis for the Group's Czech and Polish operating entities. The major obligation is for ARC to provide management services including paying the salaries and certain other expenses of certain members of the Group's management team. These salaries and services are invoiced to the Group's subsidiaries monthly. The professional fees paid by the Company and its subsidiaries to ARC amounted to 3 116 TPLN and 4 862 TPLN for the period ended 31 December 2006 and 31 December 2005, respectively.
Additionally the Group recognised as at 31 December 2006 r. a provision for costs of 1 611 TPLN relating to consultancy services provided by ARC in 2006.

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

ARS, MPI

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

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

The Group's offices in Wroclaw are also located in a building owned by ARS and Metropolitan Properties International Sp. z o.o. (MPI), a company owned by Henry McGovern.

The rent and other costs paid by the Group and its subsidiaries to ARS was 1 609 TPLN and 3 460 TPLN for the year ended 31 December 2006 and 31 December 2005, respectively.

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

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

(in thousands of Polish zloty unless otherwise stated)

YUM!

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

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

On 1 April 2006, waiver of loans from IRI and YUM! came into force, based on loan waiver agreements signed by IRI and dated September 4th, 2006. The agreements covered loans granted to the Group by IRI and YUM! in previous years. The carrying amount of these loans upon 1 April 2006 was 3 396 TPLN. As at 31 December 2005, carrying amount of these loans was 3 059 TPLN (1 332 TPLN (YUM!) and 1 727 TPLN (IRI)). Shortly before the waiver, YUM! transferred its receivables related to the loan to IRI. As loans were waived, the Group recognised in current period a profit in the amount of 3 396 TPLN which was presented as finance income (See Note 7).

Associates

Wordwide Communication Services LLS

Wordwide Communication Services LLS (WCS) Group provides marketing services to the Group. Amounts billed by WCS to the Group (mainly through its subsidiary – Synergy Marketing Partners Sp. z o.o.) for the years ended 31 December 2006 and 31 December 2005 amounted to 17 919 TPLN and 19 009 TPLN, respectively.

Transactions with key management personnel

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

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

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

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

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

33 Critical accounting estimates and assumptions

Key sources of estimation and uncertainty

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

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

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy presented in Note 1n. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (see Note 12). No impairment was recognised in relation to goodwill existing at 31 December 2006 and 31 December 2005. The 10% change of discount rate percent (from 10,9% to 12%) or the 10% change of operating cashflow, would not result in impairment charge.

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

Estimated impairment of tangible fixed assets

See Note 10 for details

Estimated depreciation rates

The increase of average useful lives by 10% would result in a decrease of depreciation expense for the year ended 31 December 2006 by approximately 3 200 TPLN.

Provisions

Uncertainty and estimates described in Note 23.

Deferred taxes

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

Judgments

The most critical judgments relate to lease classification - see Note 1f, 2, 26, 27 and recognition of deferred tax asset on tax losses carry forward Note 9.

34 Financial risk and risk management

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

Risk management is carried out under policies approved by the Board of Directors.

Credit risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, receivables and held-to-maturity financial assets (Note 18). The Group places its cash and cash equivalents in financial institutions with high credit ratings. There are no significant concentrations of credit risk with respect to trade and other receivables as sales are primarily made in cash or via major credit card. Maximum amount exposed to credit risk is 20 265 TPLN.

Interest rate risk

The Group's interest-bearing borrowings typically bear floating interest rates (see Note 21). As at 31 December 2006 the exposure to interest rate cash flow risk is not hedged.

Foreign currency risk

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the USD, Euro and Czech Crown. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. In addition, the rent due on a significant portion of the Group's restaurant leases is indexed to US dollar or euro exchange rates. Although the Group seeks where possible to agree rents in local currency, many lessors still require rents to be indexed to euro or US dollar exchange rates.

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

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

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

Liquidity risk

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

Fair value of financial instruments

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

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

35 Events after the Balance Sheet Date

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

AmRest Holdings N.V.

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

Table of contents:

General

The Company is a public limited company incorporated under the laws of The Netherlands and acts as a holding company.

Amrest Holdings N.V. was established as a joint stock company in October 2000 in the Netherlands. The Company's head office is located in Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands. The company's financial statements have been drawn up in accordance with Dutch GAAP (Part 9 of Book 2 of The Netherlands Civil Code). In doing so, the company made use of the possibility to apply the accounting policies (including the policies for the presentation of financial instruments as equity or loan capital) used in the consolidated financial statements to the company financial statements, as provided in Section 362 (8) of Book 2 of the Netherlands Civil Code.

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

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

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

In conjunction with the listing of the Company's shares on the WSE, YUM! sold all of its shares in the Company and is no longer a shareholder. Moreover, IRI also sold part of its shares as a result of the Company's IPO on the stock exchange.

As at 31 December 2005 and 31 December 2006 the Company's largest shareholder remains IRI holding about 40% of voting rights and shares.

The principal activity of the Company is being a holding company for subsidiaries in Poland and Czech Republic. In addition indirect interest is held in other group companies via these subsidiaries. The Company' subsidiaries operate Kentucky Fried Chicken („KFC") and Pizza Hut franchised restaurants, and solely in Poland „Ice*Land" ice cream outlets, „Rodeo Drive" and „Freshpoint" restaurants.

The table below presents a summary of subsidiaries included within the group of the Company (the "Group") at 31 December 2006:

Name of company	City and country of incorporation	Principal activity	Parent company	Ownership interest and voting rights	Date of effective control
American Restaurants Sp. z o.o.	Wroclaw, Poland	Operating Pizza Hut and KFC restaurants in Poland	AmRest Holdings N.V.	100.00 %	December 2000
American Restaurants s.r.o.	Prague, Czech Republic	Operating Pizza Hut and KFC restaurants in the Czech Republic	AmRest Holdings N.V.	100.00 %	December 2000
American Restaurants Kft	Budapest, Hungary	Operating Pizza Hut and KFC restaurants in Hungary	American Restaurants Sp. z o.o.	100.00 %	30 June 2006
Galeria Arka Sp. z o.o.	Warsaw, Poland	Lessee of a location where a restaurant is planned to be opened	American Restaurants Sp. z o.o.	100.00 %	March 2005
Amrest Ukraina t.o.w.	Kiev, Ukraine	Established to develop and operate Pizza Hut restaurants in the Ukraine	American Restaurants Sp. z o.o.	100.00 %	December 2005
International Fast Food Polska Sp. z o.o.	Wroclaw, Poland	No current activities	American Restaurants Sp. z o.o.	100.00 %	January 2001
Pizza Hut s.r.o.	Prague, Czech Republic	No current activities	American Restaurants s.r.o.	99.973%	December 2000
			American Restaurants Sp. z o.o.	0.027%	
Fried Chicken s.r.o. (former miklik's food s.r.o.)	Prague, Czech Republic	No current activities	Pizza Hut s.r.o.	100.00%	May 2005
Grifex I Sp. z o.o.*	Wroclaw, Poland	Operates a childrens' activity centre in Warsaw which includes a KFC restaurant	American Restaurants Sp. z o.o.	48.00 %	September 2003

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

The above companies are considered to be related parties to the Company.

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The table below presents a summary of associates included within the Group at 31 December 2006:

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

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

The above companies are considered to be related parties to the Company.

Other related parties

As at 31 December 2006 the Group's largest and key shareholder remains IRI of the United States. IRI is a wholly-owned subsidiary of ARC of the United States. These companies are related parties. ARC was founded by Donald M. Kendall, Sr., Donald M. Kendall, Jr. and Christian R. Eisenbeiss, who serve as Supervisory Board members of the Group and Henry J. McGovern who is a Management Board member and the senior executive managing the operating businesses in Poland and the Czech Republic.

YUM! ceased being a related party on 27 April 2005 upon listing of the Group on WSE.

Future outlook

The management is of the opinion that the present level of activities will be maintained during the next financial year.

The financial statements are presented in US Dollars rounded to the nearest thousand

Amsterdam, 8 May 2007

Board of directors

H.J. McGovern W.G. Mroczynski

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AmRest Holdings N.V.
Company Financial Statements
For the year ended 31 December 2006

Balance sheet as at 31 December 2006

Before appropriation of profit

(Expressed in USD)	Notes	31 December 2006	31 December 2005 (restated)
		x1,000	x1,000
Fixed assets			
Financial fixed assets			
Shares in subsidiaries	1	55.462	42.382
Loans to related parties	2	-	-
Total fixed assets		55.462	42.382
Current assets			
Cash at banks		59	90
Total current assets		59	90
Current liabilities (due within one year)			
Accruals and deferred income	3	29	195
Amounts due to related parties	4	-	312
Total current liabilities		29	507
Assets less current liabilities		55.492	41.965
Long term liabilities (due after one year)			
Loans from related parties	5	-	627
Provisions	1	1.172	3.396
Net asset value		54.320	37.942
Capital and reserves	6		
Paid up and called up share capital		178	160
Share premium account		38.304	38.144
Other reserves		(343)	(7.501)
Translation reserve		3.814	(19)
Result of the year		12.367	7.158
Total shareholder's equity		54.320	37.942

Profit and loss account for the year 2006

(Expressed in USD)	2006	2005 (restated)
	x1,000	x1,000
Profit of participating interest after tax	10.069	8.058
Other results after tax	2.298	(900)
Net profit	12.367	7.158

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A condensed company income statement is presented in accordance with Section 402 of Book 2of the Netherlands Civil Code.
The financial statements are presented in US Dollars rounded to the nearest thousand. Due to the fact that the Company values its subsidiaries at net equity value (see below accounting policies for financial fixed assets), items included in the financial statements of each of the Group's entities are measured using the functional currency which is the currency of the primary economic environment in which the entity operates. Functional currency of the Polish operations is the Polish Zloty (PLN), the functional currency of the Czech operations is the Czech Crown (CZK), while the functional currency of the Hungarian operations is the Hungarian Forint (HUF).

Basis of presentation

The company annual accounts have been drawn up in accordance with Dutch GAAP (Part 9 of Book 2 of the Netherlands Civil Code). In doing so, the company made use of the possibility to apply the accounting policies used in the consolidated financial statements to the company financial statements, as provided in Section 362 (8) of Book 2 of the Netherlands Civil Code.

The accounting policies in the company financial statements are the same as those applied in the consolidated financial statements. The policies stated in the consolidated financial statements are applied, unless stated otherwise.

If not specifically stated otherwise, except for shares in subsidiaries, assets and liabilities are stated at the amounts at which they were acquired or incurred. The principles of valuation and determination of result remain unchanged compared to the prior year. These financial statememts are prepared on a going concern basis.

Financial fixed assets

The Company values its subsidiaries at net equity value. Profits made and losses incurred by these entities will be reflected in the Company's profit and loss account and equity transaction directly in equity. Net asset value is calculated using the accounting policies applied for consolidated financial statements (EU IFRS) Subsidiaries interests with an equity deficit are carried at nil. A provision is formed if and when the Company is fully or partially liable for the debts of the subsiddiaries interest, or has the firm intention to allow the subsidairies interest to pay its debts.

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			31 December 2006	31 December 2005
			x1,000	x1,000
Balance sheet				
1 Shares in subsidiaries		Owned		
Name	Domicile	(Prior year)		
American Restaurants Sp.z.o.o.	Wroclaw, Poland	100% (100%)	55.462	42.382
American Restaurants s.r.o.	Prague, Czech Republic	100% (100%)	-	-
			55.462	42.382

The Company valued its participations at net equity value. Profits made and losses incurred by these entities are reflected in the profit and loss account.

The negative net equity value of American Restaurants s.r.o. has been deducted from the loan and interest receivable from that subsidiary. For the surplus of the negative net equity value a provision has been made.

Movements in the interests in American Restaurants Sp.z o.o. (x1,000) have been as follows:

	31 December 2006	31 December 2005
Balance as per 1 January (previously reported)	42.006	19.276
c) correction for presentation accelerated amortization for Czech restaurants (note 7)	376	-
Balance as per 1 January (adjusted)	42.382	19.276
Acquisitions/contributions	-	19.930
Share in result	7.450	7.856
SOP	160	-
Translation	5.470	-
Decrease provision (receivable from) subsidiary	-	(4.680)
Balance as per 31 December	55.462	42.382

Movements in the interests in American Restaurants S.r.o. (x1,000) have been as follows:

	31 December 2006	31 December 2005
Balance as per 1 January (previously reported)	(10.071)	(13.011)
a) correction for accounting treatment for lease arrangement (note 7)	(168)	(144)
b) correction for presentation accelerated amortization for Czech restaurants (note 7)	(376)	-
c) correction for accounting capitalisation of developmemt costs relating in Czech Group (note 7)	233	-
Balance as per 1 January (adjusted)	(10.382)	(13.155)
Acquisitions/contributions	-	-
Share in result	2.619	202
Translation	(1.619)	3
Decrease provision (receivable from) subsidiary	-	2.568
Balance as per 31 December	(9.382)	(10.382)

Because of the negative value of the investment in American Restaurants s.r.o.:
- the loan granted to American Restaurants s.r.o. (see note 2) with unpaid interests of 8 210 TUSD has been wiritten off to nil
- the additional provision of 1 172 TUSD has been recognised

Movements in the provision (x1,000) have been as follows:

	31 December 2006	31 December 2005
Balance as per 1 January	(3.085)	(13.011)
a) correction for accounting treatment for lease arrangement (Note 7)	(168)	(144)
b) correction for presentation accelerated amortization for Czech restaurants (note 7)	(376)	-
c) correction for accounting capitalisation of developmemt costs relating in Czech Group (note 7)	233	-
Balance as per 1 January (adjusted)	(3.396)	(13.155)
Share in result	2.619	202
Loans to related party	-	6.828
Interest on loans to related parties	303	158
Payment interest in 2006	(294)	-
Currency exchange rate differences	1.215	-
Translation	(1.619)	3
Decrease provision subsidiary	-	2.568
Balance as per 31 December	(1.172)	(3.396)

2 The loan granted to American Restaurants s.r.o. with unpaid interests of 8 210 TUSD has been netted with the provision made for the negative net equity value of American Restaurants s.r.o. (note 1).

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	31 December 2006	31 December 2005
	x1,000	x1,000
3 Accruals and deferred income		
Tax advisory fee	11	15
Audit fee	15	32
Administration and Management fee	3	6
Capital tax payable	-	130
Other financial fee	-	12
Other payables	-	-
	29	195
4 Amounts due to related parties		
IRI	-	157
Yum!	-	155
	-	312
5 Loans from related parties		
IRI	-	373
Yum!	-	254
	-	627

On 1 April 2006, waiver of loans from IRI and YUM! came into force, based on loan waiver agreements signed by IRI and dated September 4th, 2006. The agreements covered loans granted to the Group by IRI and YUM! in previous years. As loans were waived, the Company recognised in current period a profit in the amount of 1 096 TUSD which was presented as other results after tax.

6 Capital and reserves

The authorised share capital of the Company amounts to EUR 150,000 divided into 15,000,000 shares of EUR 0.01 each. Issued and paid up are 13,500,000 shares of EUR 0.01.

The management proposes to add the unappropriate results to the other reserves.

x1,000	Share capital	Share premium	Translation reserve	Other reserves	Unappropriated results
Balance as per 01.01.2005 (previously reported)	137	12.727	(48)	(10.939)	3.582
a) correction for accounting treatment for lease arrangement	-	-	-	-	(144)
Balance as per 01.01.2005 (restated)	137	12.727	(48)	(10.939)	3.438
Paid-in / (repaid) up to 31 Dec	45	25.933	-	-	-
IPO costs	-	(1.248)	-	-	-
Transfer	-	-	-	3.438	(3.438)
Stock Option Plan (Note 8)	-	732	-	-	-
Translation	(22)	-	29	-	-
Result for the period	-	-	-	-	7.158
Balance as per 01.01.2006	160	38.144	(19)	(7.501)	7.158
Balance as per 01.01.2006 (previously reported)	160	37.412	(26)	(7.357)	7.688
a) correction of Stock Option Plan (Note 8)	-	732	-	-	(732)
b) correction for accounting treatment for lease arrangement	-	-	3	(144)	(27)
c) correction for accounting capitalisation of developmemt costs relating in Czech Group	-	-	4	-	229
Balance as per 01.01.2006 (restated)	160	38.144	(19)	(7.501)	7.158
Transfer	-	-	-	7.158	(7.158)
Stock Option Plan (Note 8)	-	160	-	-	-
Translation	18	-	3.833	-	-
Result for the period	-	-	-	-	12.367
Balance as per 31.12.2006	178	38.304	3.814	(343)	12.367

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7 Correction of accounting treatment

a) correction for accounting treatment for lease arrangement

In 2005, the leasing contract for land and building related to one of the restaurants located in Czech Republic was inappropriately accounted for as operating lease. This agreements meets the criteria of finance lease and should be cassified as such.
This adjustment had influence the following positions previously published in the financial statement:

	12 months ended 31 December 2005
Decrease of other reserves	144
Increase of provision -subsidiary (investments in American Restaurants s.r.o.)	(168)
Increase of translation reserve	(3)
Decrease of profit for the period - results of subsidiaries	27
	-

b) correction for accounting liability related with Stock Option Plan (SOP)

In 2005, Company did not recognise stock option plans in co-only accounts.
This adjustment had influence the following positions previously published in the financial statement:

	12 months ended 31 December 2005
Increase of share premium	732
Decrease profit for the period - results of subsidiaries	(732)
	-

c) correction for presentation of accelerated depreciation for Czech restaurants

In 2005, the accelerated amortization for two Czech depreciation was showed in Polish financial statements.
Correct presentation has influence the following positions previously published in the financial statement:

	12 months ended 31 December 2005
Increase of investments in American Restaurants Sp. z o.o.	376
Increase of provision -subsidiary (investments in American Restaurants s.r.o.)	(376)
	-

d) correction for accounting capitalisation of developmemt costs relating in Czech Group

In 2005, the capitalization of development costs relating to Czech Group was not taken to estimation result in American Restaurants s.r.o.
This adjustment had influence the following positions previously published in the financial statement :

	12 months ended 31 December 2005
Decrease of provision	233
Increase profit for the period - results of subsidiaries	(229)
Increase of translation reserve	(4)
	-

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8 Share options schemes

Stock option plan 1

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

Stock option plan 2

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

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

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

Staff numbers and employment costs

The Company has no employees and hence incurred no wages, salaries or related social security charges during the reporting period, nor during the previous year.

Directors

The Company has two (previous year: two) managing directors, which receive no remuneration.
The Company has six (previous year: six) supervisory directors.
Remuneration to Managing directors and Supervisory Board are paid by American Restaurants Sp. z o.o.

Transactions with key management personnel

Key management (members of the management board of AmRest Holdings N.V.) remuneration is as follows:

	12 months ended 31 December 2006	12 months ended 31 December 2005
H.J. McGovern	450	345
W.G.Mroczyński	184	54
P.Whiskared-Węgorzewski		209
	634	608

Key management also participated in share options programs.
Share based payment expense which relates to key management amounted to:

	12 months ended 31 December 2006	12 months ended 31 December 2005
H.J. McGovern	20	7
W.G.Mroczyński	5	
	25	7

As at December 31st 2006, Henry McGovern held a total of 110 000 units (options) under the Stock Option Plan, of which 82 000 units have vested. As at December 31st 2006, their value amounted to USD 1 807 thousand.

As at December 31st 2006, Wojciech Mroczyński held a total of 7 000 units (options) under the Stock Option Plan, of which 1 400 units have vested. As at December 31st 2006, their value amounted to USD 23 thousand.

At 31 December 2006 there were no commitments to former employees.

Amsterdam, 8 May 2007

Board of directors

H.J. McGovern W.G. Mroczynski

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Other information

Appropriation of results

Subject to the provisions under Dutch law that no dividends can be declared until all losses have been recovered, other reserves and unappropriated results are at the disposal of the shareholder in accordance with the Company's articles of association.
Furthermore, Dutch law prescribes that any profit distribution may only be made to the extent that the shareholder's equity exceeds the amount of the issued capital and the legal and/or statutory reserves.

The management proposes to the shareholder to add the result for the year to the other reserves.

Audit of accounts

The auditor's report is set forth on the following page.

Subsequent events

No events have occurred since balance sheet date, which would change the financial position of the Company and which would require adjustment of or disclosure in the annual accounts now presented.

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To the shareholders of
AmRest Holdings N.V.

Auditors' report

Report on the financial statements

We have audited the accompanying financial statements 2006 of AmRest Holdings N.V., Rotterdam as set on pages 48 to 112. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2006, the company income statement for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the annual report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

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In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AmRest Holdings N.V. as at 31 December 2006, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of AmRest Holdings N.V. as at 31 December 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the annual report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, 8 May 2007

PricewaterhouseCoopers Accountants N.V.

N.W. Over de Vest RA