

KINEPOLIS GROUP NV
Eeuwfeestlaan 20, 1020 Brussels
Enterprise Number VAT BE 0415.928.179 - RLP Brussels

Free translation

Report of the Board of Directors on the Statutory annual accounts for financial year 2009 to the General Meeting of 21 May 2010

Dear Shareholders,

In accordance with Articles 95 and 96 of the Companies Code and our Articles of Association, we are proud to report to you on the activities and results of our company during the financial year running from 1 January 2009 to 31 December 2009.

1. **Notes on the Statutory annual accounts of NV Kinopolis Group**

Shareholders' equity for Kinopolis Group NV as at 31 December 2009 amounted to EUR 71,519,965 compared to EUR 79,984,967 at the close of 2008, with the difference being primarily attributable to depreciation affecting the value of the stakes held in the Polish companies.

The balance sheet total for the company was EUR 195,229,041 compared to EUR 234,601,289 in 2008, and the underlying reason for this change is explained below.

1.1. Separate balance sheet: comments on the main assets

1.1.1. Start-up expenses

The start-up expenses were fully amortised on 31 December 2009.

1.1.2. Intangible fixed assets

Investments were made in software and other licences.

1.1.3 Tangible fixed assets

The change is attributable to the new hardware for the above-mentioned software packages and to the standard depreciation for the financial year.

1.1.3 Financial fixed assets

Financial fixed assets decreased further to the depreciation of the Polish companies.

1.1.4. Receivables due after one year

As the subsidiaries were able to generate sufficient cash flow, intercompany receivables were substantially reduced, which can also be seen in the bank debts.

1.1.5. Receivables due within one year

The increase in receivables due within one year is the result of the deferral of payment granted to NV Screenvision Belgium and the invoices issued at year's end.

1.1.6. Investments

For this item, the increase is the result of the revaluation of the own shares.

1.2. Separate balance sheet: discussion of the main liabilities

1.2.1. Capital, issue premiums and profits carried forward

The financial year's results were EUR 2,343,739 in the red, which meant that it was necessary to withdraw amounts from the profits carried forward to be able to pay the dividend.

1.2.2. Debts due after one year

Financial debts decrease further.

1.2.3. Debts due within one year

Debts due within one year rose pursuant to the launch of a commercial paper programme, increases in suppliers further to the year-end invoicing of the exchange deals, and as a result of the higher dividend payments.

1.3. Discussion of the Company profit and loss account as at 31 December 2009

Losses for the financial year amounted to EUR 2,343,739 compared to a loss of EUR 5,810,717 in 2008.

Company profits dropped from EUR 4,708,044 to EUR 2,012,505, primarily due to depreciations on overdue clients.

The change in net financial results was for the most part due to a withdrawal of the depreciations affecting own shares.

Results were further influenced by a capital gain made on the sale of the CinemaxX AG shares and the depreciation of the stake in the Polish companies.

2. Main risks and uncertainties

The company has taken the necessary steps to manage risks as effectively as possible, but this cannot guarantee that the measures implemented will comprehensively cover all risks arising under all possible circumstances.

3. Performance indicators

Insofar as necessary, we refer to the consolidated annual report of the company for a description of the financial and non-financial performance indicators.

4. Purchase of own shares

In execution of the discretionary mandate granted to Bank Degroof by the Board of Directors under the conditions of Temporary Provision no. 2 of the Articles of Association, in 2009 a total of 66,113 shares were purchased for EUR 997,613. No shares were sold.

On 31 December 2009, Kinopolis Group NV held a total of 277,231 of its own shares, which represents 4% of the total number of shares and accounts for a capital value of EUR 1,958,501.

5. Composition of the Audit Committee

In accordance with Article 526 of the Companies Code, as at 31 December 2009 the Audit Committee consisted exclusively of non-executive and independent directors who all possessed the requisite expertise and experience in the fields of accounting and auditing pursuant to their previous and/or current professional activities:

- Mr Geert Vanderstappen (Management Center Molenberg BVBA);
- Mr Rafaël Decaluwé (Gobes Comm. V.)

The Financial Director and the Managing Directors are present during Audit Committee meetings. In addition, the representatives of the reference shareholders may also attend meetings by invitation.

In 2009, the Audit Committee met on four occasions with all its members present and the principal items covered were as follows:

- discussion of financial reporting in general and of the annual and consolidated financial reports and semi-annual financial report in particular;

- discussion, assessment and follow-up of the internal audit activities,
 - discussion and evaluation of the internal monitoring and risk management systems;
 - evaluation of the effectiveness of the external audit process;
 - monitoring of the financial reporting and its compliance with applicable reporting standards.
7. Conflicts of interest coming under the application of Article 523 of the Companies Code

On 18 February 2009, in application of Article 523 of the Companies Code and after the Directors in question had taken leave of the meeting, deliberations took place among the competent Directors regarding the granting to members of Executive Management of the variable portion of their salaries.

Excerpt from the minutes

“Notification in accordance with Article 523 of the Companies Code

Messrs Joost Bert and Eddy Duquenne informed the other Directors that they had a conflict of interest of a proprietary nature within the meaning of Article 523 of the Companies Code arising from the fact that the Board of Directors was going to decide of the management objectives by the members of the Executive Management.

Decision

After an introductory explanation provided by the Chairman of the Appointments and Remuneration Committee, the Board of Directors determined that the qualitative and quantitative criteria for granting the variable portion of the remuneration to the Executive Management as set out by the Board of Directors and the Appointments and Remuneration Committee had been met in 2008 and it thus allocated this variable compensation sum amounting to EUR 200,000 per member of the Executive Management.”

On the same date and also in application of Article 523 of the Companies Code, deliberations took place concerning the Executive Management compensation policy for the 2009 financial year.

Excerpt from the minutes

“Notification in accordance with Article 523 of the Companies Code

Messrs Joost Bert and Eddy Duquenne informed the other Directors that they had a conflict of interest of a proprietary nature within the meaning of Article 523 of the Companies Code arising from the fact that the Board of Directors was going to decide on the attainment of the management objectives for variable remuneration by the members of Executive Management.

Deliberations and decision:

Further to the detailed explanation of the Chairman, the Board of Directors was made aware of the 2009 variable remuneration policy for Executive Management as proposed by the Appointments and Remuneration Committee, and in particular of the following basic elements:

- Executive Management is defined as the Co-Managing Directors.*
- Maximum variable compensation for members of Executive Management in its current structure (2 Co-Managing Directors) may not exceed EUR 400,000, plus a bonus of EUR 70,000 if quantitative management objectives have been surpassed by 25% or more.*
- The final variable remuneration amount granted to the Co-Managing Directors depends on the fulfilment of the qualitative and quantitative management objectives which apply jointly to both Co-Managing Directors, where 70% of the variable remuneration is linked to the attainment of the quantitative management objectives and 30% to the attainment of the qualitative management objectives.*
- With regard to the quantitative management objectives, the criterion is the current net profit, after elimination of the positive and negative impacts resulting from one-off or exceptional transactions, capital gains on assets held for sale, fixed assets, restructuring costs, etc. The level of the variable remuneration depends on the level of the current net profit. The total amount (so for both Co-Managing Directors together) of the variable remuneration allocated to the quantitative management objectives for 2009 is at most EUR 350,000. The total (so for both Co-Managing Directors together) of the variable remuneration linked to the fulfilment of the qualitative management objectives is at most EUR 120,000;*

The Board of Directors believes that the variable remuneration system based on the 2009 management objectives for Executive Management as proposed by the Appointments and Remuneration Committee makes the interests of Executive Management coincide with those of the company and helps in achieving the objectives of the company as regards value creation. The maximum impact which the awarding of the performance-linked variable remuneration to the Co-Managing Directors would have for the company, i.e. the awarding of a one-off amount of at most EUR 470,000, is in the opinion of the Board of Directors amply compensated for by the value creation which the proposed system can generate for the company.

The Board of Directors consequently decided to approve the proposal of the Appointments and Remuneration Committee regarding variable remuneration based on the 2009 management objectives for Executive Management.

On 31 March 2010 and in application of Article 523 of the Companies Code, the Board of Directors decided, pursuant to the significant extent to which the quantitative management objectives had been exceeded, to increase the outperformance bonus pool for 2009 to EUR 230,209.

8. Research and development

There are no research and development activities.

9. Use of financial instruments

As an international company, Kinopolis is exposed to various types of financial risks, including foreign exchange rate risks and interest rate risks.

Through a general risk management approach, Kinopolis endeavours to minimise the negative effect of these risks on the Group's financial results by means of hedging operations using financial instruments.

Kinopolis manages its debt position through a combination of short-, medium- and long-term debt structures. The combination of debts serviced by either fixed or variable interest rates is determined at group level. At the end of December 2009, the group's financial debts amounted to EUR 109.5 million. Kinopolis has concluded interest rate swap agreements and interest rate options to manage the risks associated with interest fluctuations. On 31 December 2009, these interest rate swaps amounted to EUR 105 million for a gross debt of 109.5 million.

10. Important events after the balance sheet date

NV Screenvision Belgium

Kinopolis is considering a takeover of NV Screenvision Belgium, but the conditions necessary for this to take place have not yet been fulfilled. In the interest of all stakeholders, Kinopolis is maintaining its objective to keep the Belgian cinema advertising market unified.

Court of Appeals annuls Competition Council decision of 1 October 2008 and issues ruling

In its ruling of 11 March 2010, the Court of Appeals confirmed the decision of the Competition Council (Belgium) dated 1 October 2008 by annulling it and then issuing the same ruling as the Council, with the difference that the conditions imposed on Kinopolis in 1997 will not automatically expire on the termination date (1 October 2011) but rather will be automatically extended unless the Council decides otherwise pursuant to a prior request from Kinopolis.

11. Outlook

There are no circumstances which will substantially affect the development of the company in the near future.

12. Statements under acquisitions legislation

Relevant information

Rights to nominate candidates for a seat on the Board of Directors

The articles of association state that eight directors are to be appointed from the candidates nominated by Kinohold Bis, a limited liability company governed by the law of Luxembourg. This rule applies insofar as Kinohold Bis or its successors, as well as all entities directly or indirectly controlled by any of them or any of their successors (in the sense of Article 11 of the Companies Code) holds, individually or collectively, no less than 35% of the company's shares at the time of nomination or appointment by the General Meeting. If Kinohold Bis or its successors, as well as all entities directly or indirectly controlled by any of them or any of their successors (in the sense of Article 11 of the Companies Code) represents less than 35% of the company's capital, Kinohold Bis or its successors shall only be entitled to nominate candidates for a seat on the Board of Directors for each tranche of shares representing 5% of the company's capital.

If the above condition with regard to shareholding is met, the General Meeting must appoint candidates to the corresponding number of seats on the Board of Directors that are on the list of candidates nominated by Kinohold Bis sa, in accordance with the above stipulations.

Shareholder agreements

The company is not aware of any shareholder agreements that could restrict the transfer of securities or the exercise of voting rights in the context of a public acquisition bid.

Change of control

Pursuant to the Term and Revolving Facilities Agreement concluded by Kinopolis Group nv and a syndicate of financial institutions on 26 November 2004 and amended on 10 February 2006 and 13 July 2007 a participating financial institution may end its participation in this agreement, if natural or corporate persons other than Kinohold Bis and Stichting Administratiekantoor Kinohold acquire control of Kinopolis Group nv. In this event, the corresponding part of the loan is immediately due and payable.

Received statements

Pursuant to Article 74 of the Public Acquisitions Bids Act of 1 April 2007, on 26 August 2009 Kinopolis Group nv, received statements from the following persons acting by mutual agreement (either because they are 'affiliated persons' in the sense of Article 11 of the Companies Code or they otherwise act in mutual agreement) and collectively holding more than 30% of the voting shares of Kinopolis Group nv: Kinopolis Group nv, Kinohold Bis sa, Stichting Administratiekantoor Kinohold, Marie-Suzanne Bert-Vereecke, Joost Bert, Koenraad Bert, Geert Bert and Peter Bert.

According to these statements:

- Kinohold Bis sa held 2 434 288 shares or 35.12% of the shares of the company compared with 34.41% at 1 September 2008. Kinohold Bis sa is controlled by Stichting Administratiekantoor Kinohold under Dutch law, which in turn is jointly controlled by the following natural persons (in their capacity as directors of Stichting Administratiekantoor): Marie-Suzanne Bert-Vereecke, Joost Bert, Koenraad Bert, Geert Bert and Peter Bert. Kinohold Bis sa also acts in mutual agreement with Joost Bert.
- Kinopolis Group nv, controlled by Kinohold Bis sa, held 277 231 or 4% of the shares of the company compared with 0.45% at 1 September 2008.

There were no changes to the shareholding of Joost Bert, who acts in mutual agreement with Kinohold Bis sa. He retains 41 600 shares or 0.6% of the shares of the company.

13. Continuity assessment

The profit and loss account showed a loss for the second consecutive year, namely EUR -2,343,739.99 in 2009 compared to EUR -5,180,717 in 2008, and this led to the application of Article 96.6 of the Companies Code.

The Board of Directors is of the opinion that the assessment rules can continue to be respected as regards continuity due to the fact that the company has a shareholders equity of more than 71 mio € and that the loss in 2009 was caused by the booking of depreciations in holdings.

As such, there is no threat to the continuity of the company.

14. Remuneration of the auditor

Remuneration for the Auditor amounted to EUR 125,280 for the 2009 financial year. In addition to this, during the financial year the Auditor also invoiced EUR 19,140 for other verification assignments and EUR 1,000 for assignments falling outside the scope of auditing activities. Other persons professionally associated with the Auditor invoiced Kinopolis Group NV EUR 157,417 in connection with other assignments falling outside the scope of auditing activities and EUR 78,350 for tax advisory services.

15. Appropriation of profits

The Board of Directors took various factors into account in the proposal to the General Meeting regarding the appropriation and distribution of profits, including the financial situation of the company, the operating profits, the current and expected resources and the plans for expansion.

In accordance with the royal decree of 30 January 2001, the annual accounts were drawn up after appropriation of the profits.

The following appropriation of the profits is proposed:

Loss for the financial year to be appropriated	- 2,343,739.99
Profit carried forward from the previous financial year	16,629,239.63
Addition to shareholders' equity:	
To the reserves	997,613.05
Profit to be carried forward:	7,166,624.35
Remuneration of the capital	6,121,263.24

If the General Meeting approves this proposal, as from 2 June 2010 a gross amount of EUR 0.92 shall be payable upon presentation of coupon no. 10.

Messrs Eddy Duquenne, CEO, and Joost Bert, CEO, declare that to their knowledge:

- the annual accounts, which were drawn up in accordance with the applicable standards for annual accounts, give a true and fair view of the financial situation and the results of the Company;
- the annual report gives a true and fair view of the development and results of the company, as well as of the main risks and uncertainties it is facing.

The Board of Directors, Brussels, 31 March 2010

Mr P. Ghekiere

J. Bert

Mr E. Duquenne

BVBA Management Center Molenberg, with as its permanent representative
Mr Geert Vanderstappen

Marc van Heddeghem

Marion Debruyne BVBA, with as its permanent representative Mrs Marion Debruyne

Gobes Comm. V., with as its permanent representative Mr Raf Decaluwé