

KINEPOLIS GROUP NV
Limited liability company
Eeuwfeestlaan 20, 1020 Brussel
Enterprise Number VAT BE 0415.928.179 RLE Brussels

Free Translation

Report of the Board of Directors related to the Statutory Financial statements for fiscal 2020 to the Ordinary General Meeting of 12 May 2021

Dear Shareholders,

In accordance with the legal and statutory obligations, we have the honor to comment you on the policy and results of our company during the fiscal year running from 1 January 2020 to 31 December 2020.

1. NOTES TO THE STATUTORY FINANCIAL STATEMENTS OF KINEPOLIS GROUP NV

Kinepolis Group shareholders' equity amounted to € 83 510 032.09 as of 31 December 2020, compared to € 137 903 666.76 at the end of 2019.

This movement is further clarified under 1.2.1.

The balance sheet total of the company amounted to € 582 470 457.62, compared to € 620 513 240.33 in 2019. This movement is further clarified under 1.1. and 1.2. below.

1.1. STATUTORY BALANCE SHEET: COMMENTS ON THE MAIN ASSETS

1.1.1. Intangible fixed assets

Intangible fixed assets decreased by € 798 286.60, mainly due to a temporary stop of new and current projects following the Covid-19 pandemic. As such the finalisation towards a new ERP system was suspended.

Due to the Covid-19 pandemic and the homeworking paired with it, there was a need for some necessary investments and the purchase of more VPN licenses as a result.

The implementation of the AP automation system was further rolled-out gradually, as was the Vista system amongst others, thanks to the opening of the new cinema complex Cineschalkstad in Haarlem (NL).

Furthermore, investments were made in the development and optimisation of the digital ticketing platform, the construction of a new website and a Customer Satisfaction Index for Landmark and MJR.

Regarding these investments, there was an amount of € 2 468 584.67 booked in depreciations this year.

1.1.2. Property, plant and equipment

Property, plant and equipment has decreased by € 584 351.02 compared to 2019. Total investments in 2020 amounted to € 174 219.78, mainly in ICT hardware. Normal depreciations amounted to € 721 915.80.

1.1.3. Financial fixed assets

Financial fixed assets decreased by € 2 669 286.41, this due to a decrease of the intercompany receivable.

1.1.4. Stocks and orders in progress

Stocks increased in 2020 by € 172 891.37 and amounted to € 1 299 546.11.

1.1.5. Amounts receivable within one year

Amounts receivable within one year decreased by € 26 027 289.18. This is, on the one hand, the result of a decrease by € 28 993 245.44 in receivables with affiliated companies and a decrease in client receivables by € 3 812 529.25. These decreases are mainly due to the closures of the cinemas due to Covid-19.

On the other hand there was a claim of € 5 916 000.00 in 2020 towards the fiscal authorities due to the application of the so called 'Carry Back' system. This enables to recoup a tax loss of € 23 664 000.00 on tax profits of the prior fiscal year.

1.1.6. Cash investments

Cash investment have decreased by € 7 985 281.90, due to the provision of a depreciation on treasury shares which amounted to € 7 792 887.86.

1.1.7. Accrued charges and deferred income

Accrued charges and deferred income amounted to € 2 190 210.48 and consist mainly of refinancing costs to be carried forward.

1.2. STATUTORY BALANCE SHEET: COMMENTS ON THE MAIN LIABILITIES

1.2.1. Capital, share premium account, reserves and result carried forward

The result for fiscal 2020 was € -54 393 634.67 and operating result decreased by € 103 831 663.98 compared to 2019 and amounted to € -36 327 097.25.

Reserves decreased by € 7 985 281.90 due to a depreciation of treasury shares.

1.2.2. Provisions and deferred taxes

Provisions amounted to € 32 732.00.

1.2.3. Amounts payable after more than one year

Long-term debts increased by € 11 090 989.40. This is due to a increase in the intercompany debts of € 11 144 413.40.

1.2.4. Amounts payable within one year

Amounts payable within one year amounted to € 16 655 180.56 resulting in an increase by € 7 475 330.70 compared to 2019.

This is due to an increase in intercompany debts of € 6 916 942.54.

Debts consisting of unpaid taxes, wages and social charges have increased by € 821 436.44 mainly due to a payment delay of social charges granted by the "Rijksdienst voor Sociale Zekerheid" (Social Security Administration).

1.2.5. Accrued charges and deferred income

Accrued charges and deferred income decreased by € 2 222 511.76 due amongst others to a decrease in accrued income of film vouchers by € 932 718.58 and a reversal of a provision for share options for an amount of € 1 184 284.57.

1.3. COMMENTS ON THE STATUTORY INCOME STATEMENT

Operating income decreased by € 98 333 889.14, mainly due to the closure of the cinemas due to Covid-19. Also the sale of digital material decreased by € 6 957 525.27.

Operating costs rose by € 5 497 774.84.

This is, on the one hand, due to a decrease of purchases amounting to € 8 878 450.94 and this mainly of digital material and ICT hardware.

On the other hand there was an increase of goods and services by € 17 532 795.41.

The decrease of the operational income amounted to € 103 831 663.98.

Financial income decreased by € 10 985 640.05 mainly due to the fact that there were no dividends nor liquidations paid out.

Furthermore there was an increase by € 2 408 449.13 due to a rise in income from intercompany loans.

Financial costs have increased by € 15 213 000.88.

On the one hand there was a reversal of the depreciation of treasury shares in 2018 which amounted to € 2 707 808.74 and on the other hand there was a provision for depreciations on treasury shares of 2020 of € 7 792 887.86.

Besides that there was an increase in 2020 of adverse exchange rate differences which amounted to € 5 167 422.42.

Tax costs decreased by € 21 689 394.12, mainly due to the negative result and to the 'Carry Back' for an amount of € 5 916 000.00.

Tax costs amounted to € 387 758.04, and consisted of taxes on a benefit in kind and a payment of a group contribution.

2. IMPORTANT EVENTS IN 2020 AND AFTER CLOSING DATE

KINEPOLIS FREE TO OPEN NEW CINEMAS IN BELGIUM FROM AUGUST 2021

On 23 October 2019, the Brussels Court of Appeal annulled the ruling of the Belgian Competition Authority (BCA) issued on 25 March 2019 and decided to abolish the condition that prevents Kinopolis from growing organically in Belgium. The Competition Authority then commented on the transitional period on 11 February 2020, ruling that Kinopolis would no longer require prior permission to open new cinema complexes in its home market from 12 August 2021 on.

KINEPOLIS SIGNS A 3-YEAR CREDIT OF € 80.0 MILLION AND EXTENDS THE COVENANT HOLIDAY

In order to be prepared for possible longer delays before the full resumption of its activities, Kinopolis has taken out an additional loan of € 80.0 million with its main bankers for a period of 3 years. In this context, the banks also extended the suspension of the credit covenants ('covenant holiday') until 30 June 2022. These covenants – which include a maximum debt level – were replaced by a liquidity covenant following the extended suspension. In line with the existing bank credit facilities, the additional credit provides for a number of conditions that limit the disposal of assets, acquisitions and the payment of dividends above a financial debt level of 3.75. On account of its strong balance sheet, the rigorous cost control measures applied, the solid real estate position and the back-up of an 80% guarantee provided by Gigarant (a Belgian state guarantee fund), Kinopolis succeeded in concluding the additional credit at attractive commercial terms.

3. INFORMATION ABOUT THE CIRCUMSTANCES THAT COULD HAVE A SIGNIFICANT IMPACT ON THE DEVELOPMENT OF THE COMPANY – PRINCIPAL RISKS AND UNCERTAINTIES

3.1. PERFORMANCE INDICATORS

The financial statements and the annual report give a true and fair view of the development and position of the Company, so no further description of essential financial and other performance indicators is needed in addition to the data provided in the consolidated annual report of Kinopolis Group.

3.2. DESCRIPTION OF THE MAIN BUSINESS RISKS

In order to gain insight into the main business risks, the Board of Directors and the Management of the Company will conduct a risk assessment on an annual basis, and this assessment will be subsequently analysed and validated by the Board of Directors. As in previous years, this took place again in 2020 on the basis of a written survey of the participants in order to gain both quantitative and qualitative results, enabling risks to be assessed in order of scale.

Although this way of working enables Kinopolis to distinguish important risks from less important risks in a well-founded way, it remains an estimation that, inherent in the definition of risk, provides no guarantee whatsoever of the actual occurrence of risk events. The following list (in random order) therefore contains only some of the risks to which Kinopolis is exposed.

AVAILABILITY AND QUALITY OF SUPPLIED CONTENT

Bearing in mind that Kinopolis Group does not produce any content itself (such as films, etc.), it is dependent on the availability, diversity and quality of films, as well as the possibility of being able to rent this content from distributors. To the extent possible, Kinopolis Group endeavours to protect itself against this by maintaining or establishing good long-term relations with the major film distributors and producers or other content providers, by pursuing a policy of content diversification, and by playing a role as a distributor in Belgium. The investments in Tax Shelter projects in Belgium should also be viewed in this light.

SEASONAL EFFECTS

The operating revenue of Kinopolis Group can vary from period to period, as the producers and distributors decide when their movies are released completely independently of the cinema operators, and because certain periods, such as holidays, can traditionally have an impact on visitor numbers. The weather can also play an important role in the frequency of cinema visits. Kinopolis largely accepts this risk, considering that the costs of a financial hedging policy would exceed the revenue from it, but endeavours to mitigate the consequences, among other things, by varying its cost structure to a maximum degree.

COMPETITION

The position of Kinopolis Group as a cinema operator is subject to competition, just like every other product or service for which substitutes exist. This competition not only results from the presence of cinemas run by other operators in the markets in which the Group is active, and from the possible opening of new cinema complexes in those markets, but also from the increasing availability and sometimes even simultaneous or exclusive availability of films and series via online content media, such as Netflix, Apple and Disney+. This development, which accelerated in 2020, may be further influenced by the continuous technical improvement of the quality of these alternative ways of viewing a film. In addition to these legal alternatives, the cinema industry also has to deal with illegal downloads. Kinopolis is working actively together with distributors to agree measures to counter a possible increase in the illegal sharing of material online. Finally, the position of Kinopolis Group is impacted by increasing competition from other forms of leisure activities, such as concerts, sporting events, gaming, etc., that can have an influence on the behaviour of Kinopolis customers.

Kinopolis Group strives to strengthen its competitive position as a cinema operator by implementing its strategic vision, which is focused on being able to provide customers with a premium service, content and film experience.

ECONOMIC SITUATION

Changes to the general, global or regional economic situations, or the economic situations in areas where Kinopolis Group is active and that can impact consumer behaviour and the production of new movies, can have a negative impact on the operating profits of Kinopolis Group. Kinopolis endeavours to arm itself against this threat by implementing decisive efficiency measures and by closely monitoring and controlling costs and margins. Changing economic conditions can also increase competitive risks.

RISKS ASSOCIATED WITH GROWTH OPPORTUNITIES

With further growth, competition authorities can impose (additional) conditions and restrictions on the growth of Kinopolis Group (see also 'Political, regulatory and competition risks' below). In addition, certain inherent risks are also associated with growth opportunities, either through acquisition or new-build projects, which can have a negative impact on the targets set. Kinopolis Group will thereby also thoroughly examine growth opportunities in advance to ensure these risks are properly assessed and, where necessary, managed.

POLITICAL, REGULATORY AND COMPETITIVE RISKS

Kinopolis Group strives to operate at all times within the legal framework. However, additional or amended legislation, including tax laws, could restrict Kinopolis's growth and/or operations, or result in additional investments or costs. Where possible, Kinopolis Group actively manages these risks by notifying the relevant political, administrative or legal bodies of its views and defending them in an appropriate way. Furthermore, the Belgian Competition Authority has imposed a number of conditions and restrictions on Kinopolis Group, such as the requirement of obtaining the prior approval of the Competition Authority for acquisitions of cinema complexes in Belgium.

TECHNOLOGICAL RISKS

Cinema has become a highly computerised and automated sector, in which the correct technological choices and the optimal functioning of projection systems, sales systems and other ICT systems are critical in order to be able to offer an optimal service to the customer. Kinopolis Group tries to manage these risks by closely following the latest technological developments, regularly analysing the systems architecture, securing its networks and optimising them where necessary, and by implementing ICT best practices.

PERSONNEL RISKS

As a service company, Kinopolis Group largely depends on its employees to provide a high-quality service.

Hiring and retaining the right managers and employees with the requisite knowledge and experience in all parts of the Company is therefore a constant challenge, which is magnified even more in the covid period.

Kinopolis accepts this challenge by offering attractive terms of employment, good knowledge management and a pleasant working atmosphere. Kinopolis measures employee satisfaction on the basis of employee surveys and adapting its policies where necessary.

Furthermore, Kinopolis also attaches great importance to the health of its employees, and endeavours to create a work environment that is as free of risks as possible. To this end, and in addition to compliance with the legal obligations with regard to safety and prevention, it has taken a number of further measures, such as the organisation of preventive examinations by the Company doctor, the organisation of evacuation exercises, prevention training, etc. In the context of the Covid-19 pandemic, Kinopolis also drew up the necessary protocols in which, in order to protect the health of the employees, working from home was the guiding principle for the office employees, strict guidelines were issued for the employees active in the cinemas, and the necessary protective material was made available to every employee.

CUSTOMER RISKS

Customer experience is key at Kinopolis Group, which is why Kinopolis places the greatest importance on the management of the risks that could have a negative impact on the customer experience in all aspects of the Kinopolis 'customer journey'. In the first place, Kinopolis is concerned with the physical integrity of its customers, and therefore ensures that the health and safety risks for its customers are reduced to a minimum when they are in the complexes. This includes numerous aspects, ranging from user-friendly buildings and installations to user-friendly products (e.g. compliance with HCCP standards, noise levels in the theatres) and the prevention of feelings of insecurity through an adapted surveillance policy. In the context of the Covid-19 pandemic, extensive safety protocols were developed and implemented in consultation with the competent local authorities and sector federations, with the main pillars being:

- Managing the flow of visitors to, from and in the cinema.
- Maintaining appropriate social distancing throughout the entire cinema visit.
- Strict safety and hygiene measures in all areas and in all interactions with staff.
- Providing maximum information to customers about all necessary and useful safety measures.

Measures were also taken to adjust the ventilation systems to ensure a maximum supply of outside air in all the rooms.

In addition, in line with its best marketer strategy, Kinopolis also respects the privacy and data integrity of its customers. To this end, it has appointed a 'data protection officer' (DPO) and implemented a number of legal and security measures to protect customer data, and has organised GDPR training for staff, while the DPO carries out the necessary audits to ensure that the Company's privacy policy remains up-to-date at all times, and the status of the Company's GDPR maturity is discussed in internal committees as well as in the Audit Committee.

Last but not least, Kinopolis tries to respond to any questions or dissatisfactions as quickly as possible by offering its clients timely and adequate services so that potential complaints or disputes can be prevented or be resolved as quickly as possible. Poor management of the above-mentioned risks would lead to a decline in customer satisfaction, reputational damage and, ultimately, a decline in visitor numbers. In addition, the likelihood of disputes and/or administrative fines would also increase considerably.

RISKS RELATED TO EXCEPTIONAL EVENTS

Events of an exceptional nature, including but not limited to extreme weather, political unrest, terrorist attacks, pandemics etc., in one or more countries where Kinopolis Group is active and that result in material damage to one of the multiplexes, a fall in the number of customers or disruption in the delivery of products, can have a negative impact on activities. Kinopolis strives to minimise the potential impact of such risks as far as possible through a combination of preventive measures (such as structural engineering decisions, evacuation planning) and detection measures (such as fire detection systems) by taking out adequate insurance, and through a strong focus on cost management.

ENVIRONMENTAL LIABILITY AND PROPERTY RISKS

Given the fact that Kinopolis Group owns and leases real estate, the latter is subject to regulations with regard to environmental liability and potential property risks. In addition to the above-mentioned measures to manage political and regulatory risks, Kinopolis will take appropriate measures to prevent environmental damage and limit property risks.

OTHER RISKS

Following the annulment by the Court of the decisions of the Belgian Competition Authority (BMA) of 31 May 2017 and 26 April 2018 to relax the behavioural conditions imposed on Kinopolis Group by the BMA in 1997, the BMA lifted the condition prohibiting organic growth without prior consent on 11 February 2020, with effect from 12 August 2021. The other behavioural conditions, including those related to the prior approval by the BMA regarding acquisitions in Belgium, remain in force.

4. ACQUISITION OF TREASURY SHARES

On 31 December 2020, Kinopolis Group held 480 851 treasury shares, with a capital value of € 333 022.52

5. USE OF FINANCIAL INSTRUMENTS

The Company had no outstanding financial instruments at 31 December 2020.

6. DECLARATION OF NON-FINANCIAL INFORMATION AS PROVIDED FOR IN THE LAW OF 3 SEPTEMBER 2017 – CORPORATE SOCIAL RESPONSIBILITY

For the declaration of non-financial information regarding Corporate Social Responsibility, referation is made to the Sustainability report of the consolidated annual report of Kinopolis Group NV.

7. CORPORATE GOVERNANCE STATEMENT

The governance structure of the Company, and more specifically the role and responsibilities, the composition and the functioning of the Board of Directors, its advisory Committees and the Executive Management are described in the Corporate Governance Charter (the 'Charter'), of which a revised version was adopted by the Board of Directors on 23 February 2021, using the Belgian Corporate Governance Code 2020 (the 'Code 2020') as a reference code.

The Board of Directors revised the Corporate Governance Charter at the beginning of 2021 in the light of the new Belgian Corporate Governance Code 2020 (the '2020 Code'), but has already applied these new governance rules as much as possible, with the central aim of ensuring long-term sustainable value creation for all stakeholders.

This chapter of the annual report provides more factual information on the Corporate Governance policy pursued in the financial year 2020, with the aim of applying the principles resulting from this charter as much as possible without affecting the unique character of the Company. Where necessary, the required explanation of the deviations from the Code is given in accordance with the 'comply or explain' principle.

The Charter can be consulted on the investor relations website of Kinopolis Group.

7.1. SHARE CAPITAL

The share capital on 31 December 2020 amounted to € 18 952 288.41, and is represented by 27 365 197 shares, without nominal value, all of which benefit the same corporate rights.

After the delivery of 11 495 shares under share options exercised by beneficiaries, Kinopolis Group held 480 851 treasury shares on 31 December 2020, with a capital value of € 333 022.52.

7.2. RIGHT TO NOMINATE CANDIDATES TO THE BOARD OF DIRECTORS

According to the articles of association, 8 directors can be appointed from among the candidates nominated by 'Kinohold Bis', a public limited company under the laws of Luxembourg, insofar as it or its legal successors, as well as all entities directly or indirectly controlled by (one of) them or (one of) their respective legal successors (within the meaning of Article 1:20 of the Belgian Companies and Associations Code, (the 'BCAC')), solely or jointly, hold at least thirty-five per cent (35%) of the shares of the Company at the moment the candidate is nominated, as well as at the moment of appointment by the General Meeting, on the understanding that, if the shares held by Kinohold Bis SA or its respective legal successors, as well as all entities directly or indirectly controlled by (one of) them or (one of) their respective legal successors (within the meaning of Article 1:20 of the BCAC) represent less than thirty-five per cent (35%) of the capital of the Company, Kinohold Bis SA or its respective legal successors shall only be entitled to nominate candidates to the Board of Directors for each group of shares representing five per cent (5%) of the Company's capital.

7.3. SHAREHOLDER AGREEMENTS

No shareholder agreements are known within the Company that could restrict the transfer of securities and/or the exercise of voting rights in the context of a public acquisition bid.

7.4. CHANGE OF CONTROL

The Credit Agreement concluded on 15 February 2012 between Kinopolis Group NV and some of its subsidiaries on the one hand, and BNP Paribas Fortis Bank NV, KBC Bank NV and ING Belgium NV (and with the addition of Belfius Bank from 16 December 2019) on the other hand, and as amended and restated several times and most recently as of 8 January 2021, provides for a participating financial institution being able to end its participation in said agreement, whereby the relevant part of the outstanding loan amount will become immediately due if natural or legal persons other than Kinohold Bis SA (or its legal successors) and Mr Joost Bert acquire control (as defined in the Credit Agreement) of Kinopolis Group NV.

The General Terms and Conditions of the Listing and Offering Prospectus dated 17 February 2012 with regard to a bond issue in Belgium also provide that, in the case of a change of control (as defined in the Prospectus), any bond holder shall have the right to oblige Kinopolis Group NV to repay all or a part of his/her bonds under the conditions set forth in the Prospectus. This Prospectus can be consulted on the website of Kinopolis Group.

The General Terms and Conditions of the Prospectus dated 12 May 2015 regarding an Unconditional Public Exchange Offer with respect to the above-mentioned bonds also provide that, in the event of a change of control (as defined in the Prospectus), each bond holder will have the right to oblige Kinopolis Group NV to repay all or a part of his/her bonds under the conditions set out in the Prospectus. This Prospectus can also be consulted on the website of Kinopolis Group.

Finally, the General Terms and Conditions dated 16 January 2015 regarding the private placement of bonds with institutional investors to the amount of € 96.0 million, as well as the General Terms and Conditions dated 5 December 2017 regarding the private placement with institutional investors to the amount of € 125 million, and the General Terms and Conditions dated 5 July 2019 relating to the private placement with institutional investors for an amount of € 225 million, contain clauses for the case of a change of control that are identical to those defined in the above-mentioned Prospectus.

7.5. SHAREHOLDER STRUCTURE AND RECEIVED NOTIFICATIONS

Based on the notifications received pursuant to Article 74 of the Public Acquisition Bids Act of 1 April 2007 from Kinopolis Group NV, Kinohold Bis SA, Stichting Administratiekantoor (Administration Trust Office) Kinohold, Joost Bert, Koenraad Bert, Geert Bert and Peter Bert, acting by mutual agreement (either because they are 'affiliated persons' within the meaning of Article 1:20 of the BCAC or there is mutual consultation between them) collectively hold more than 30% of the voting shares of Kinopolis Group NV, from subsequent transparency statements (pursuant to the Act of 2 May 2007 and the Royal Decree of 14 February 2008 regarding the disclosure of major holdings) and from notifications within the framework of the share buyback programme, it is shown that, as of 31 December 2020:

- Kinohold Bis SA, held 12 700 050 shares, or 46.41% of the shares of the Company;
- Kinohold Bis SA is controlled by Kinohold, Stichting Administratiekantoor under Dutch law, which is in turn jointly controlled by the following natural persons (in their capacity as directors of the Stichting Administratiekantoor): Joost Bert, Koenraad Bert, Geert Bert and Peter Bert;
- Kinohold Bis SA shall continue to act in close consultation with Mr. Joost Bert;
- Kinopolis Group NV, which is controlled by Kinohold Bis SA, held 480 851 or 1.76% treasury shares;
- Mr Joost Bert, who acts in close consultation with Kinohold Bis SA and together with Pentascoop NV (a company controlled 100% by him) held 492 218 shares, or 1.80% of the shares of the Company.

The table below shows the situation based on the transparency notifications received under the Law of 2 May 2007. Any amendments communicated since 31 December 2020 have been published in accordance with the provisions of the above-mentioned law and can be consulted at www.kinopolis.com/corporate.

SHAREHOLDERS' STRUCTURE AT 31 DECEMBER 2020

SHAREHOLDER	NUMBER OF SHARES	%
Kinohold BIS SA	12 700 050	46.41
Mr. Joost Bert	492 218	1.80
Kinopolis Group NV	480 851	1.76
Free Float, of which:	13 692 078	50.03
- BNP Paribas Asset Management SA	1 366 585	4.99
TOTAL	27 365 197	100%

7.6. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Amendments may be made to the articles of association with due consideration for the stipulations set out in the BCAC.

The Extraordinary General Meeting of 13 May 2020 made several amendments to the Articles of Association in order, among other things, to bring them into line with the BCAC introduced by the law of 23 March 2019, as well as introducing a new article regarding participation to the General Meeting by electronic means.

7.7. BOARD OF DIRECTORS AND SPECIAL COMMITTEES

In light of the 2020 Code, the Board of Directors has thoroughly evaluated the management structures contained in the BCAC, and has opted for the one-tier board structure as provided for in Articles 7:85 et seq. of the BCAC, as this best reflects the current and desired governance structure of the Company.

COMPOSITION OF THE BOARD OF DIRECTORS

From 8 May 2019, the Board of Directors consists of eight members, seven of whom have a non-executive role, and four of whom are to be considered independent of the reference shareholders and the management. As the new BCAC no longer stipulates that directors who have held three consecutive mandates can no longer sit as independent directors, the Company considered Ms. Debruyne, who has held her third consecutive mandate from 2019 and has not been nominated on the proposal of the reference shareholders, as a de facto independent director since January 1, 2020, as she met all the criteria listed in Article 7:87 §1 of the BCAC and the 2020 Code. The other independent directors also fulfil the above-mentioned criteria and were appointed on the recommendation of the Board of Directors, which was advised on this by the Nomination and Remuneration Committee. The reference shareholders did not exercise their nomination right with regard to these appointments.

Furthermore, the Board regularly reviews the criteria for its composition and that of its committees in light of ongoing and future developments, expectations and the risks to which the Company may be exposed, as well as its strategic objectives. The Board pays due attention in this regard to complementarity and diversity among its members, including gender and age diversity, while ensuring that a balance is maintained between renewal and continuity, in order to enable the acquired knowledge and history to be passed on efficiently, while still being able to stay on top of new social and other trends, both in the Board and its committees.

The chairmanship of the Board of Directors is held by Pentascoop NV¹, with Mr Joost Bert as its permanent representative who, after a career of 20 years as CEO of the Company, preferred to continue his role within the Company as Chairman of the Board of Directors in 2018. In view of his extensive knowledge and experience in the national and international cinema sector, Mr. Bert is the right person to assist Mr. Duquenne, in his role as CEO, with the necessary support and advice, among other things with regard to strategy development, as well as to support the Board of Directors in conducting a high- quality dialogue with the shareholders, including the reference shareholders, and to thereby further contribute to sustainable value creation for the Company, with a focus on the long-term interests of all stakeholders.

Mr. Philip Ghekiere, as Vice-Chairman, assists the Chairman in the fulfilment of his mandate, and will take over his role in the event of unavailability.

Contrary to Stipulation 3.19 et seq. of the Belgian Corporate Governance Code 2020, the Board of Directors has not appointed a secretary, as it believes that, bearing in mind the limited size of the Company, these duties can be fulfilled by the Chairman, assisted by the Corporate Counsel.

The table on the next page gives an overview of the composition of the Board of Directors, as well as the attendance record of the various directors with regard to the 12 meetings that took place in 2020, of which 7 were scheduled and 5 were additional.

¹ Representing the reference shareholders

COMPOSITION OF THE BOARD OF DIRECTORS

NAME	POSITION	TERMS ENDS	OTHER POSITIONS AT LISTED COMPANIES	ATTENDANCE RECORD (12)
Mr. Joost Bert, permanent representative of Pentascoop NV ⁽¹⁾	Chairman	2024	/	All meetings
Mr. Philip Ghekiere ⁽¹⁾	Vice-chairman	2024	/	All meetings
Mr. Eddy Duquenne ⁽²⁾	Managing Director	2024	/	All meetings
Ms. Sonja Rottiers, permanent representative of SDL Advice BV	Independent Director	2022	/	11 meetings
Ms. Marleen Vaesen, permanent representative of Mavac BV	Independent Director	2022	Van de Velde NV: CEO	9 meetings
Mr. Ignace Van Doorselaere, permanent representative of 4F BV	Independent Director	2021	/	10 meetings
Ms. Marion Debruyne, permanent representative of Marion Debruyne BV	Independent Director	2021	Ackermans & Van Haaren NV: Independent non-executive director	All meetings
Mr. Geert Vanderstappen, permanent representative of Pallanza Invest BV	Director	2022	Smartphoto group NV: Non-executive director	All meetings

(1) Representing the reference shareholders

(2) Executive director

ACTIVITY REPORT OF THE BOARD OF DIRECTORS

In view of the Covid-19 pandemic and its impact on the Company, the agenda of the Board of Directors was adjusted accordingly and, in addition to the tasks assigned to the Board of Directors by the BCAC, the Articles of Association and the Charter, mainly the following issues were discussed:

- the impact of the Covid-19 pandemic on the Company and the cinema sector, and the measures taken to minimise it at most;
- the commercial and financial results, together with forecasts;
- the cash planning, taking different scenarios into account;
- the long and short-term financing;
- the long and short-term strategy and strategic projects;
- the 2021 budget plan and the 2022 'Entrepreneurship' plan;
- the ongoing cinema and Real Estate projects;
- the governance structure of the Company;
- the variable remuneration of the CEO and the related management objectives;
- the ICT policy, including the ICT security policy.

Other items, including human resources, external communication, investor relations, disputes and legal and tax issues, are addressed as needed or desired.

At least seven meetings are scheduled for the year 2021. Additional meetings may be held if needed.

COMPOSITION AND ACTIVITY REPORT OF THE NOMINATION AND REMUNERATION COMMITTEE

In accordance with the applicable governance rules, the Company has one joint committee, the Nomination and Remuneration Committee. This committee consists of the following non-executive directors, the majority of whom are independent directors with the necessary expertise and professional experience in the field of human resources, given their previous and/or current professional activities:

- Pentascoop NV, with Mr. Joost Bert (Chairman of Kinopolis Group NV) as the permanent representative;
- 4F BV, with Mr. Ignace Van Doorselaere, CEO of Neuhaus, as the permanent representative;
- SDL Advice BV with Ms. Sonja Rottiers as permanent representative, currently CEO and Executive Director of Lloyds Insurance Company SA.

The CEO may attend the meetings of the Nomination and Remuneration Committee by invitation, without participating in the deliberations or decisions.

The Nomination and Remuneration Committee met twice in 2020, headed by its Chairman, and all members of the committee were present.

The following topics were primarily discussed during these meetings:

- the remuneration policy in the light of the new relevant regulations;
- the remuneration report for the 2019 period;
- the evaluation of the 2019 management objectives for the CEO, and the variable remuneration linked to these;
- the management objectives for the CEO in the 2020 period, as well as the related variable remuneration;
- the renewal of directorship mandates.

COMPOSITION AND ACTIVITY REPORT OF THE AUDIT COMMITTEE

In accordance with the applicable rules in this respect, the Audit Committee is composed exclusively of non-executive directors, the majority of whom are also independent. The Audit Committee as a whole has the appropriate expertise with regard to accounting and auditing, and was composed as follows:

- Pallanza Invest BV, with permanent representative Mr. Geert Vanderstappen, who combines 5 years' experience as a Corporate Officer at Corporate & Investment Banking at the Generale Bank with 7 years of operational experience as finance director at Smartphoto Group NV, and who is currently Managing Partner at Pentahold NV;
- Mavac BV, with permanent representative Ms. Marleen Vaesen who, among other things, has held the position of CEO at Greenyard, and is currently CEO of Van de Velde NV;
- SDL Advice BV, with permanent representative Ms. Sonja Rottiers who, after having held the position of CFO and CEO at Dexia Verzekeringen and Axa Belgium, is currently CEO and executive director of Lloyd's Insurance Company SA.

The CFO, the CEO, the Chairman of the Board of Directors, the Vice-Chairman and the internal auditor attend the meetings of the Audit Committee.

The representatives of the reference shareholders may attend the meetings by way of invitation.

In 2020, the Audit Committee, under the chairmanship of Mr. Geert Vanderstappen, met four times in the presence (or via representatives) of all members, and dealt mainly with the following items:

- discussion of the financial reporting in general, and of the annual statutory and consolidated financial report, the half-yearly financial report, and the related press releases in particular;
- discussion, establishment and monitoring of the internal audit activities, including discussion of the annual report of the Internal Audit department and the internal audit plan 2021;
- discussion of the impact of Covid-19 on the financial reporting;

- discussion and evaluation of the internal control and risk management systems, as well as the annual 'risk-management action plan';
- evaluation of the effectiveness of the external audit process;
- evaluation of the work of the internal auditor;
- monitoring of the financial reporting and its compliance with the applicable reporting standards;
- discussion and monitoring of the Non-Audit Services regulations.

EVALUATION OF THE BOARD OF DIRECTORS, ITS COMMITTEES AND ITS INDIVIDUAL

As part of the open and transparent manner in which the meetings of the Board and its committees are held, its operation and performances are constantly and informally evaluated during the meetings, as is the interaction with the Executive Management, with whom is communicated in the same transparent manner.

The results of the performance assessment carried out in 2019 by means of extensive questionnaires on the following topics were the subject of thorough discussion in 2020:

- the composition of the Board of Directors;
- the procedure with regard to the nomination of directors;
- the activities of the Board and its committees;
- the quality of the information that is made available to the Board of Directors;
- the tasks of the Board of Directors and the topics that should be discussed regularly;
- the remuneration policy for the Board and the CEO;
- the individual contribution of each director;
- the interaction with the CEO and the controlling shareholders.

DIVERSITY

The Board has three female members, accounting for more than one third of the Board of Directors, and therefore meets the legal requirement that at least one-third of the members of the Board must be of a different gender than the other members.

In the coming years, the Board will not only focus its diversity policy on gender, skills and age, but also pay further attention to the international management experience of its directors in order to enable the Board to keep a close eye on the social and economic context and structure in the various geographical areas in which Kinopolis Group operates. The above-mentioned diversity goals were included in the selection process applied by the Nomination and Remuneration Committee and the Board of Directors when searching for potential directors and, among other things, have meant that the Board of Directors not only has three female directors, but is also made up of directors with complementary profiles in terms of competence, knowledge and experience, including international management experience.

7.8. EXECUTIVE MANAGEMENT

Following the resignation of Mr Bert as managing director, Mr Duquenne, as CEO, is the only member of the Executive Management. The Board of Directors has the authority to appoint further members of the Executive Management, and discusses the succession plan for the CEO annually in an informal manner. Given the above-mentioned composition and the fact that no formal or informal executive committee has been set up within Kinopolis Group, no specific diversity policy applicable to the persons charged with day-to-day management has been developed, although the focus is placed on the required management and business experience, insights, skills and know-how needed to perform the function. The above-mentioned basic principle is applied throughout the organisation, regardless of the nationality, cultural background, age or gender of the employees.

7.9. INSIDER TRADING POLICY – CODE OF CONDUCT – TRANSACTIONS WITH AFFILIATES

The Dealing Code, approved in 2016 and updated in 2019, applies to the members of the Board of Directors, the Chief Executive Officer, persons closely related to the aforementioned persons, and all other persons who might have inside knowledge. The Protocol is designed to ensure that share trading by the persons in question only occurs strictly in accordance with applicable EU and national rules, as well as in accordance with the guidelines issued by the Board of Directors. As the Compliance Officer, the Chief Financial Officer (CFO) is responsible for monitoring compliance with the rules on insider trading, as set out in this Protocol.

A Code of Conduct has also been in force since 2013, containing the appropriate guidelines, values and standards with regard to the ethical and appropriate way in which Kinopolis wishes to treat employees, customers, suppliers, shareholders and the general public. In this document, the employees are reminded that any form of bribery is unacceptable and that personal gifts should not be accepted, except in the case of small gifts in line with generally accepted corporate practices. This corporate culture is applied by all employees of the Company at all times.

The limited transactions with affiliated companies, as included in Notes to the Consolidated Financial Statements, were conducted in complete transparency with the Board of Directors.

7.10. REMUNERATION REPORT

GENERAL PRINCIPLES

Pending the approval of the updated remuneration policy that is to be submitted to the shareholders at the General Meeting on 12 May 2021, the remuneration for the 2020 period was allocated to the Board of Directors and Executive Management based on the principles set out in the 2019 Annual Report, and more specifically:

- The overall remuneration for the Board of Directors is determined by the General Meeting on the proposal of the Board of Directors assisted by the Nomination and Remuneration Committee; the General Meeting of 13 May 2020 thereby set the remuneration at a maximum amount of € 918 414.
- The distribution of the global portfolio is decided by the Board of Directors on the proposal of the Nomination and Remuneration Committee, based on the following principles:
 - The non-executive directors receive a fixed amount of € 32 500 for the performance of their duties as members of the Board of Directors, taking into account at least 6 attendances at the meetings of the Board of Directors; in the event of attending fewer meetings, the remuneration is reduced proportionally;
 - The members of the committees are allocated a fixed amount of € 3 000 per attendance of a meeting of the committee, with an additional fixed fee of € 3 750 for the Chairman of the Audit Committee;
 - The Chairman and Vice-Chairman of the Board of Directors are allocated a fixed annual amount for participation in the meetings of the Board of Directors and the committees, amounting to € 568 164 and € 100 000 respectively;
 - The Chief Executive Officer is allocated a fixed annual amount of € 30 000 for participation in the meetings of the Board of Directors.
 -
- The non-executive directors do not receive any bonuses or share-related long-term incentive programmes, nor any benefits in kind (with the exception of the right to attend a number of film screenings each year).
- The Board of Directors determines the remuneration of the Executive Management based on the proposal of the Nomination and Remuneration Committee, with due consideration for the relevant contractual stipulations and benchmark data from other comparable listed companies, in order to ensure that these remunerations are in line with market rates in relation to the tasks, responsibilities and management objectives to be fulfilled:
 - As such, the fixed remuneration for the CEO (excluding the remuneration as a member of the Board of Directors) was set at € 725 242 and the maximum variable remuneration at € 485 000 (excluding any outperformance bonuses);
 - The variable part of the remuneration is aimed at ensuring that the interests of Executive Management run parallel to those of the Company, that they lead to value creation, and provide the appropriate incentive to optimise the short-term and long-term objectives of the Group and its shareholders;

- The management targets to which the variable remuneration is linked are proposed annually by the Nomination and Remuneration Committee, and are approved by the Board of Directors. These targets consist of both quantitative and qualitative targets, with 30% of the variable remuneration being linked to the achievement of the qualitative targets, and 70% to the achievement of the quantitative targets. All the targets are formulated by the Board of Directors in such a way that they achieve not only the Group's short-term objectives, but also the long-term objectives;
 - With respect to the quantitative objectives, the Board of Directors customarily used the evolution of the Adjusted EBITDA (formerly called 'recurring EBITDA') versus the targets set by the Board of Directors as performance criterion, as this criterion was the relevant parameter for measuring the development of value creation within the Company. If the Adjusted EBITDA realised for the relevant year is between the set objectives, an amount between 0 and 100% of the variable compensation linked to the realisation of the quantitative objectives will be paid pro rata;
 - Due to the Covid-19 crisis, the formerly used financial objectives were reconsidered during 2020 and the manner the Company faces this crisis from an operational and financial point of view, was used as the parameter to evaluate the management;
 - The qualitative objectives that must be realised over several years and are aimed at long-term value creation for the Company are evaluated annually on the basis of the progress achieved per specific objective and, for 2020, consisted of (1) the further development of the improvement potential of the MJR cinemas, (2) the optimisation of various management, analysis and reporting tools and the simplification of administrative processes, (3) the further implementation of the expansion strategy taking the Covid-19 impact into account, (4) the further development of the CSR strategy and (5) the adaptation of the Company to the consequences of the Covid-19 crisis.
- On the proposal of the Board of Directors, which is of the opinion that the quantitative and qualitative management objectives are set in such a way that they also ensure the long-term goals of the Company, the General Meeting of 11 May 2016, in accordance with the applicable regulations, approved the proposal to base the integral annual variable remuneration of the CEO for the periods of 2017 to 2020 included on objective and measurable performance indicators agreed in advance, and always measured over a period of one year.

REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration for the year 2020 was established on the basis of the above-mentioned principles.

In light of the Covid-19 crisis and the financial efforts made by the persons employed by the Group in this regard, all directors have however decided to reduce their remuneration for the year 2020 by 20% as shown in the table on the next page, and moreover the Chairman has decided to postpone the payment of part of his remuneration.

All members of the Board of Directors, as well as the directors of the subsidiaries of the Company, are insured via a 'civil liability of directors' policy', for which the total premium amounts to € 63 000, excluding taxes, and which is paid by the Company.

With the exception of the right to attend film screenings in the Kinopolis cinemas, the non-executive directors received no other remuneration, benefits, share-based or other incentive bonuses from the Company in the past period.

REMUNERATION OF THE BOARD OF DIRECTORS

NAME	TITLE	2019 REMUNERATION (IN €) ⁽¹⁾	2020 REMUNERATION (IN €) ⁽¹⁾
Mr. Joost Bert, permanent representative of Pentascoop NV	Chairman	568 164	454 531 ⁽²⁾
Mr. Philip Ghekiere	Vice-chairman	100 000	80 000
Mr. Eddy Duquenne	Managing Director	30 000	24 000
Ms Sonja Rottiers, permanent representative of SDL Advice BV	Independent director	53 500	40 400
Ms. Marleen Vaesen, permanent representative of Mavac BV	Independent director	44 500	35 600
Mr. Ignace Van Doorselaere, permanent representative of 4F BV	Independent director	41 500	30 800
Ms. Marion Debruyne, permanent representative of Marion Debruyne BV	Independent Director	32 500	26 000
Mr Geert Vanderstappen, permanent representative of Pallanza Invest BV	Director	48 250	38 600
TOTAL		918 414 ⁽³⁾	729 931

⁽¹⁾ All amounts are gross amounts before tax.

⁽²⁾ Of which, given the Covid-19 crisis, € 265 142 will not be paid until a later stage.

⁽³⁾ 934 664 including the management remunerations paid to the board members whose mandate ended on 8 May 2019

REMUNERATION OF THE CEO

The remuneration of the CEO was determined by the Board of Directors on the proposal of the Nomination and Remuneration Committee, taking into account the principles of the remuneration policy mentioned above.

Fixed remuneration

In view of the Covid-19 crisis and the financial and other efforts made by the persons employed by the Group in this regard, the CEO has decided to invoice only part of the fixed remuneration amounting to € 271 965 for the year 2020, and to postpone the payment of the remaining part amounting to € 453 277.

Variable remuneration

PERFORMANCE CRITERION	RELATIVE WEIGHTING	MEASURED PERFORMANCE
Quantitative objectives (development of Adjusted Ebitda)	70%	Above target
Qualitative objectives	30%	On target

In 2020, the Board of Directors, assisted by the Nomination and Remuneration Committee, evaluated the objectives to be achieved in the 2019 period and noted based on the consolidated results that, with respect to the quantitative objectives, the Adjusted EBITDA realised was well above the maximum targets set and also that the milestones set with respect to the qualitative objectives – which related to the further development of Landmark Cinemas Canada's improvement potential, the further expansion of the Group, the optimisation of the various management, analysis and reporting tools to support the further implementation of the business strategy and the programming and marketing strategy – had also been achieved, resulting in the allocation of a variable remuneration amounting to € 485 000 in 2019.

In view of the 'outperformance' regarding the quantitative objectives as well as the significant steps taken in the expansion strategy, it was also decided to grant an "outperformance bonus" in the amount of 48 500.

In light of the Covid-19 crisis, the CEO has postponed the payment of this variable remuneration related to the year 2019 to a later period.

Total remuneration

EDDY DUQUENNE BV	FIXED REMUNERATION		VARIABLE REMUNERATION IN THE SHORT TERM ⁽²⁾	EXCEPTIONAL ITEMS	PENSION COST	TOTAL REMUNERATION	RATIO OF FIXED AND VARIABLE REMUNERATION
	BASIS	ADDITIONAL BENEFITS ⁽¹⁾					
2020	725 242 ⁽³⁾	9 000	0	0	0	725 242	Fixed:100% Variable: 0%

⁽¹⁾ Expense allowance.

⁽²⁾ Concerns the variable remuneration as decided upon and paid out.

⁽³⁾ Of which € 453 277 will be paid out later.

LONG-TERM INCENTIVES

On 11 May 2016, the General Meeting approved the 2016 Share Option Plan, under which 543 304 options (with a term up to 10 May 2024) on existing shares could be granted to the former Chairman of the Board of Directors, the Executive Management and eligible executives of the Company or its subsidiaries in order to enable the aforementioned persons to participate in the long-term shareholder value they will help create, thereby aligning their interests with the interests of the shareholders. By granting stock options, the Company aims to be able to attract, motivate and commit the best management talent to the Company in the long term.

The options listed hereafter were granted to Messrs Bert and Ghekiere in their capacity as co-CEO and Chairman of the Board of Directors, respectively, in 2017.

The options are vested over a period of 5 years, and the vested options can be exercised at the earliest 4 years after being granted, and at the latest on 10 May 2024.

A more detailed description of the features of these options can be found in Note 20 to the Consolidated Financial Statements and on <https://corporate.kinopolis.com/en/investor-relations/share-kinopolis/information-memorandum>.

No additional options were granted to the persons listed below in 2020, nor were any options exercised by them.

Long-term incentives

BENEFICIARY	NUMBER OF OPTIONS GRANTED	NUMBER OF OPTIONS VESTED (1)
Eddy Duquenne	90 000	74 970
Joost Bert	45 000	37 485
Philip Ghekiere	45 000	37 485

(1) On the date of the Financial report

Evolution of the remuneration and performance of the Company

	2016	2017	2018	2019	2020
Remuneration of directors	+5.59%	+6.53%	+89.73% (1)	+19.52%	-21.90%
Remuneration CEO Eddy Duquenne (2)	+18.19%	-11.66%	+19.74%	+1.08%	-36.74% (3)
Remuneration CEO Joost Bert	-2.55%	-6.46%	-34.98% (4)	-100%(4)	/
Net profit	+47.72%	+2.98%	-3.38%	+14.69%	-227.11%
Adjusted EBITDA	+3.98%	+10.28%	+14.10%	+46.34%	-89.96%
Average remuneration of employees (5)	+19.2%	+12%	+5%	-14%	-29%

1)The increase is explained by the fact that a new Chairman was appointed as from 11 May 2018.

2)In this evolution we have considered the total remuneration where, as for the variable part, we have taken into account the amount which has been awarded and paid out for services provided in the prior year; the evolution does not include the remuneration as director.

3) This percentage takes into account that the variable remuneration awarded in 2020 for services provided in 2019, will only be paid out in 2021.

4) Mr. Bert has been CEO until 10 May 2018.

5) The evolution is based on the cost of labor of Kinopolis Group NV of all employees and of all natural and legal persons linked to the Company by a management agreement or similar agreement, and takes into account the fixed and variable remuneration, vacation pay, end-of-year pay, all extra-legal payments and employer contributions.

SEVERANCE PAYMENTS

No severance payments were made in 2020.

CLAW-BACK RIGHTS

There were no claw-back rights applied for any variable remuneration in 2020.

RATIO BETWEEN HIGHEST AND LOWEST REMUNERATION

The ratio between the highest and lowest remuneration within Kinopolis Group NV is factor 17. This includes all components of the remuneration and more exactly for the lowest remuneration the fixed remuneration, variable remuneration, vacation pay, end-of-year pay, all extra- legal payments and employer contributions.

SHAREHOLDER'S VOTE

In accordance with section 7:149, paragraph 3 of the BCAC, the Company has reflected on the votes cast by shareholders when determining the remuneration for the 2020 period, but considers the remuneration policy as applied in 2020 to be a balanced policy aimed at sustainable value creation for all stakeholders, and has therefore adopted the remuneration policy on the same lines for the following years.

7.11. DESCRIPTION OF THE MAIN CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In accordance with the Corporate Governance rules and the various relevant regulations, the Company has developed a process for risk management. Kinopolis Group makes use of the 'Integrated Framework for Enterprise Risk Management' in this regard as developed by the *Committee of Sponsoring Organisations of the Treadway Commission* ('COSO'). This framework integrates both the internal control and risk management processes, and is aimed at the identification and management of strategic, operational and reporting risks, as well as legal and regulatory risks in order to ensure the achievement of the corporate objectives.

Kinopolis Group uses this framework to implement a system of Risk Management or to control the above risks in the business processes and financial reporting. The system is developed centrally, and is uniformly applied as far as possible in the various parts of the organisation and its subsidiaries. The system deals with the various components as prescribed by the reference model, as well as the various roles and responsibilities with regard to internal controls and risk control.

ROLES AND RESPONSIBILITIES

Risk management is not the exclusive responsibility of the Board of Directors and Executive Management within Kinopolis Group; every employee is responsible for the proper and timely application of the various risk management activities within the scope of his or her job.

The responsibilities regarding the risk management of the Board of Directors (and its various committees) and the Executive Management are established and described in detail in legal stipulations, the Belgian Corporate Governance Code 2009 and 2020 and the Kinopolis Corporate Governance Charter. In brief, it can be stated that the Executive Management bears final responsibility for the appropriate implementation and management of the risk-management system, while the Board of Directors has a supervisory role in this matter.

The implementation and management of the risk-management system is based on a pyramidal responsibility structure, in which each manager is not only responsible for the proper introduction and application of the risk-management processes within the scope of his or her job, but also has a duty to monitor its proper implementation by his or her subordinates (who may, in turn, be managers).

In this way, management can be confident of proper and comprehensive risk management throughout the Company and be assured that related risks in the various business processes and departments are being tackled in an integrated way.

APPLICATION OF THE VARIOUS COMPONENTS

The way in which the Group applies the various components of the COSO framework is outlined below.

This description covers only the most important elements, and is therefore not comprehensive. In addition, the appropriateness of the application is evaluated on a regular basis and is therefore continually subject to change.

INTERNAL CONTROL ENVIRONMENT

An appropriate internal environment is a precondition for being able to effectively apply other risk-management components. With this in mind, Kinopolis Group highly values integrity and ethical action. In addition to the existing legal framework, Kinopolis Group endeavours to encourage and enforce such behaviour by means of both preventive measures (e.g. via the Charter, the Code of Conduct, the work regulations, the application of strict criteria in the area of human resources, in particular with regard to the areas of the selection and recruitment of staff and periodic evaluations, and various procedures and policies) as well as investigative measures (e.g. reporting procedure, compliance inspections).

Another important aspect of the internal environment is the organisational structure. Kinopolis has a clear and uniform organisational structure, which matches the various countries and business processes. The organisational structure, the determination of the various objectives, the management of the budget and the remuneration process are also aligned to each other.

In addition, correct employee training and guidance is essential for the proper application of risk management. To this end, the training needs of every employee are examined on an annual basis, distinct from the existing compulsory courses for certain jobs. New managers also undergo introductory risk-management training on an annual basis.

SETTING OF OBJECTIVES

In line with the Company's mission, business objectives are set for different terms. As described in the Charter, these are confirmed on an annual basis by the Board of Directors, which also ensures that they are in line with the Company's risk appetite, as determined by the Board of Directors.

The (financial and non-financial) objectives established at consolidated level are gradually developed into specific objectives for individual countries, business units and departments on an annual basis. The lowest level is the determination of the individual objectives for each employee. The attainment of these objectives is linked to the remuneration policy.

Progress with regard to these objectives is regularly assessed through business-controlling activities based on management reports. The individual objectives are assessed at least once a year as part of a formal HR evaluation process.

INTERNAL CONTROL

Internal Control is defined as the identification and assessment of business risks, as well as the selection, implementation and management of the appropriate risk responses (including the various internal control activities).

As stated above, it is first and foremost the duty of every manager to properly set up and implement the various internal risk-management activities (including monitoring) within the scope of his/her job. In other words, each line manager is responsible for the appropriate and timely identification and evaluation of business risks and the ensuing control measures to be taken and managed.

Although the individual line manager has some latitude when applying these rules, Kinopolis aims to standardise the process as much as possible. This is achieved by organising e-learning ERM training courses, implementing the structured policy guidelines and procedures, and using standard lists for the internal controls to be carried out.

The Board of Directors and Management of Kinopolis conduct an annual risk assessment to acquire a general understanding of the business risk profile. The acceptability of residual risks is also assessed as part of this. If these are not acceptable, additional risk-response measures are taken.

INFORMATION AND COMMUNICATION

The appropriate structures, consultation bodies, reporting and communication channels have been set up within Kinopolis Group for business operations, in general, and risk management in particular in order to ensure that the information required for those operations, including risk management, is made available to the appropriate persons in a timely and proper way. The information in question is retrieved from data warehouse systems that are set up and maintained in such a way as to meet the reporting and communication requirements.

MONITORING

In addition to the monitoring activities by the Board of Directors (including the Audit Committee) as stipulated by law, the applicable governance provisions and the Charter, Kinopolis mainly relies on the following monitoring activities:

- **Business Controlling:** The Management, supported by the Business Controlling department, shall analyse the progress made towards meeting the objectives and explain the discrepancies on a monthly basis. This analysis may identify potential improvements with regard to the existing risk management activities and measures;
- **Internal Audit:** the existing risk management activities and measures will be regularly assessed by the Internal Audit department with regard to internal rules and best practices. Possible improvements will be discussed with the Management, and will result in the implementation of concrete action points that further tighten risk management.

7.12. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The company complies with the principles of the 2020 Code.

In line with the 'comply or explain principle', the Company has decided that it was in the best interests of the Company and its shareholders to deviate from the stipulations of the Code in a limited number of specific cases in addition to the circumstances described above:

- Provision 4.6. of the Code: the professional qualifications and duties of the directors to be reappointed were not stipulated in the convening notices to the General Shareholders' Meeting of 13 May 2020, given that these qualifications were already published in several press releases and annual reports.
- Provision 7.6. of the Code: the non-executive directors will not be partly remunerated in shares, as the Company considers that sustainable value creation is an essential pillar of the Kinopolis strategy that is subscribed to by all directors, whether they are shareholders or not.
- Provision 7.9. of the Code: no minimum threshold has been set for shares to be held by the Executive Management, as the remuneration package for the Executive Management is already sufficiently geared towards sustainable value creation.

8. CONFLICTS OF INTEREST PURSUANT TO ARTICLE 7:96 OF THE COMPANIES CODE

On **24th of March 2020**, following decisions were made by the Board of Directors pursuant to Article 7:96 of the Belgian Companies and Associations Code:

- The evaluation of the 2019 management objectives of the CEO
- the allocation to the CEO of the resulting variable remuneration and outperformance bonus for a total amount of € 533 500;
- The establishment of the management objectives for the financial year 2020.

Minutes of 24/03/2020:

Discussion regarding the achievement of management objectives by the Executive Management in 2019 and approval of the related variable remuneration

Notification pursuant to Article 7:96 of the Belgian Companies and Associations Code

Mr Eddy Duquenne informs the other directors that he has a potential conflict of interest of a proprietary nature within the meaning of Article 7:96 of the Belgian Companies and Associations Code, given that the Board of Directors will decide on the variable remuneration over fiscal 2019.

Mr. Eddy Duquenne leaves the meeting and does not participate in the deliberations nor votes on this agenda item.

Decision

After clarification by the Chairman of the Nomination and Remuneration Committee and after establishment that:

- *with regard to the qualitative targets, the pre-established milestones have been achieved;*
- *with regard to the quantitative targets, the realized REBITDA is situated above the maximum established financial targets.*

the Board of Directors decides, after extensive deliberations and upon advice of the Nomination and Remuneration Committee, to pay out the variable remuneration linked to the qualitative targets and quantitative targets in the amount of € 485 000 for Mr Eddy Duquenne as well as to pay out an additional "outperformance bonus" of € 48 500 in view of the "outperformance" related to quantitative objectives and the important steps made forward in the expansion strategy..

The financial consequences for the Company amount to € 533 500.

Establishment of the management objectives of the Executive Management for 2020:

Notification pursuant to Article 7:96 of the Belgian Companies and Associations Code

Mr Eddy Duquenne informs the other directors that he has a potential conflict of interest of a proprietary nature within the meaning of Article 7:96 of the Belgian Companies and Associations Code, given that the Board of Directors will decide on the management objectives for fiscal 2020.

Mr Eddy Duquenne leaves the meeting and did not participate in the deliberations nor votes on this agenda item.

Decision

After extensive clarification by the Chairman of the Nomination and Remuneration Committee, the Board of Directors decides that, in the light of the COVID-19 crisis, for the financial year 2020 no quantitative objectives will be determined and that the allocation of the variable remuneration will be evaluated based on the way how the company will be able to, operationally and financially, withstand this unprecedented period.

The Board of Directors decides that the qualitative objectives and milestones, as set out by the Chairman of the Nomination and Remuneration Committee, consist of (1) analyses and actions related to the further development of the improvement potential of Landmark Cinemas Canada, (2) the further implementation of the expansion strategy of the group taking into account the COVID-19 crisis, (3) the optimisation of the various management-, analyzing and reporting tools and the simplification of the different administrative processes, (4) the further development of the CSR strategy and (5) the adaptation of the company to the expected changes resulting from the COVID-19 crisis. Their achievement will be evaluated on the basis of the progress made per specific objective.

The maximum financial consequences for the Company amount to € 485 000.

9. RESEARCH AND DEVELOPMENT

In the year under review, Kinopolis developed a number of new concepts for the benefit of the operating entities within the framework of the three strategic pillars. In this regard, Kinopolis strives to constantly adapt the experience it provides to the changing demographic trends, and to be innovative with regard to picture, sound and other factors in order to improve the customer experience and protect the profitability of the Group.

Kinopolis continued to invest in the innovation of its food, online and product concepts in 2020.

10. APPLICATION OF VALUATION RULES

The valuation rules have remained unchanged and have been applied for the purposes of the continuity of the Company.

As described in the Corporate Governance chapter of the consolidated annual report, the business risks associated with the activities of Kinopolis include the availability and quality of the content supplied, seasonal effects, competition and risks associated with exceptional circumstances.

As a result of the worldwide outbreak of the Corona virus, Kinopolis was forced to close all of its cinemas as of mid-March 2020. There have been alternate periods of closing and opening of the cinemas during the year, often with restrictions, with these varying from country to country. Due to the closure of almost all locations, a large part of the revenue was lost for a period of several months. This has a serious impact on the Group's financial results in 2020.

In order to limit the consequences of the Covid-19 pandemic, the Group has taken the necessary measures to manage the health and safety risks of its customers and employees, to limit the negative financial impact of the business closures, and to safeguard its liquidity. The strategy and nature of the Company, characterised by a maximum variability of costs, a solid real estate position, with a large proportion of cinema real estate being owned, a decentralised organisation and a 'facts-and-figures' driven corporate culture help Kinopolis Group to manage this crisis optimally.

In the short term, Kinopolis is dependent on the availability and timing of content. Most of the blockbusters, with which the Group achieves 80% of its visitors in 'normal' circumstances, were delayed by the Hollywood film studios, given the importance of the cinemas in the overall profitability of a film.

The willingness of customers to go to the cinema remains high. In periods of reopening, or in countries that are already further advanced in their vaccinations and/or reopening of the cinemas, we clearly see a strong revival in customer demand. With customer satisfaction during the reopening period above 85%, the 'Net Promotor Score' for Kinopolis as a 'brand' is clearly higher than before the crisis.

At the start of the crisis, Kinopolis had a strong balance sheet, sufficient financial reserves and credit lines, which allowed the Company to close for more than a year. The free cash flow, excluding working capital impact, was limited to € -32.1 million in 2020. In order to be prepared for possible longer delays before the full resumption of its activities, Kinopolis has taken out an additional loan of € 80.0 million with its main bankers for a period of 3 years, also included in point 2 of this annual report.

Kinopolis Group had € 171.0 million in liquidity at the start of 2021, consisting of cash and cash equivalents and available credit lines, including the new € 80.0 million credit concluded at the beginning of January 2021. Strong cost management, supported by the Group's significant real estate position, meant that Kinopolis succeeded in limiting the free cash flow, excluding the working capital effect, to an average of € -3.6 million per month in the second half of the year.

Thanks to the measures taken, Kinopolis therefore has sufficient liquidity to deal with this crisis. Kinopolis has pursued a prudent financial policy in recent years. This has resulted in an average term of more than 4,5 years for the outstanding financial liabilities. The first major repayment of its bonds will not take place until the end of January 2022 (€ 61.4 million).

Based on the availability of content in the coming years, customer demand, financial reserves, the limited negative cash flow in closed conditions and the availability of various vaccines and vaccination strategies in the various countries, Kinopolis currently sees no reason to expect that the business model will be affected over the longer term. The Group currently considers the impact of the Covid-19 pandemic to be a short-term impact that does not change the underlying parameters of its business model, which is why the Company adopted a going-concern principle in preparing this annual report.

11. PROFIT APPROPRIATION

In its proposal to the General Shareholders' Meeting concerning the appropriation of profit and payment of dividend, various factors were taken into consideration by the Board of Directors, including the Company's financial situation, the operating profits, the current and expected cash flows and the expansion plans.

In view of the impact of the Covid-19 virus on business operations and the impact on the financial results, the Board of Directors proposes to the General Meeting not to distribute a dividend.

The annual accounts were drawn up after allocation of the result, in accordance with the Royal Decree of 29 April 2019.

The following result appropriation was proposed:

Lost of the fiscal year to be appropriated:	€ 54 393 634.67
Profit carried forward from previous fiscal year:	<u>€ 86 049 483.52</u>
	€ 31 655 848.85
Withdrawal to the unavailable reserves:	€ 7 985 281.90
Profit to be carried forward:	€ 39 641 130.75
Dividends	€ 0.00

Mr. Eddy Duquenne, CEO, declares that to the best of his knowledge:

- The financial statements, which have been prepared in accordance with the applicable standards, give a true and fair view of the equity, financial position and performance of the Company and the entities included in the consolidation as a whole;
- The report of the Board of Directors gives a fair view of the development and performance of the business and the position of the Company and the entities included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed

The Board of Directors,

24 March 2021

Pentascop NV with as permanent representative Mr. Joost Bert
Chairman

Mr. Eddy Duquenne
CEO

Mr. P. Ghekiere

Marion Debruyne BV with as permanent representative Ms. Marion Debruyne

SDL Advice BV with als permanent representative Ms. Sonja Rottiers

Mavac BV with as permanent representative Ms. Marleen Vaesen

Pallanza Invest BV with as permanent representative Mr.. Geert Vanderstappen

4F BV with as permanent representative Mr. Ignace Van Doorselaere