Annual Report
2011

KINEPOLIS®

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Key figures and ratios

Key figures

NUMBER OF MULTIPLEXES	BELGIUM	FRANCE	SPAIN	SWITZERLAND	TOTAL
2011	11	7	3	1	22

VISITORS (IN MILLIONS) (1)	BELGIUM	FRANCE	SPAIN	SWITZERLAND	TOTAL
2010	9.6	6.9	4.6	0.2	21.3
2011	9.9	7.0	4.2	0.2	21.3
2011 compared to 2010	2.8 %	0.5 %	-7.9 %	-1.2 %	-0.3 %

CONSOLIDATED INCOME STATEMENT (IN '000 €)	2006	2007	2008	2009	2010	2011
Revenue	211 191	212 324	216 877	231 226	239 170	253 704
EBITDA	48 720	49 579	52 588	57 627	67 996	74 562
REBITDA			52 651	58 072	66 512	71 673
Gross profit	49 608	49 687	53 346	59 218	67 019	79 639
Operating profit	26 507	25 146	28 718	31 822	45 185	53 341
Net finance expense	-6 693	-6 890	-8 390	-2 305	-5 153	-3 169
Profit before tax	19 814	18 256	20 328	29 517	40 032	50 172
Profit	**14 635**	**14 726**	**15 186**	**22 177**	**28 062**	**36 471**
Current profit			**15 225**	**20 421**	**28 039**	**35 195**

ANNUAL GROWTH PERCENTAGES	2006	2007	2008	2009	2010	2011
Revenue	9.5 %	0.5 %	2.1 %	6.6 %	3.4 %	6.1 %
EBITDA	14.2 %	1.8 %	6.1 %	9.6 %	18.0 %	9.7 %
REBITDA				10.3 %	14.5 %	7.8 %
Gross profit	19.9 %	0.2 %	7.4 %	11.0 %	13.2 %	18.8 %
Operating profit	27.9 %	-5.1 %	14.2 %	10.8 %	42.0 %	18.1 %
Profit	**80.6 %**	**0.6 %**	**3.1 %**	**46.0 %**	**26.5 %**	**30.0 %**
Current profit				**34.1 %**	**37.3 %**	**25.5 %**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IN '000 €)	2006	2007	2008	2009	2010	2011
Non-current assets	301 491	310 247	299 349	288 153	281 856	272 139
Current assets	49 283	53 637	53 035	55 384	44 184	54 814
TOTAL ASSETS	**350 774**	**363 884**	**352 383**	**343 537**	**326 040**	**326 953**
Equity, including minority interests	108 059	113 554	117 306	132 540	157 318	133 942
Provisions (current and non-current) and deferred tax liabilities	17 229	17 524	17 272	17 676	16 364	18 110
Loans and borrowings (non-current)	119 656	139 231	130 000	86 000	57 437	38 502
Loans and borrowings (current) and bank overdrafts	31 486	15 877	16 536	23 696	22 363	56 020
Trade and other payables (current and non-current)	68 233	71 023	64 894	76 131	65 680	72 649
Other	6 109	6 675	6 375	7 494	6 878	7 730
TOTAL EQUITY AND LIABILITIES	**350 774**	**363 884**	**352 383**	**343 537**	**326 040**	**326 953**

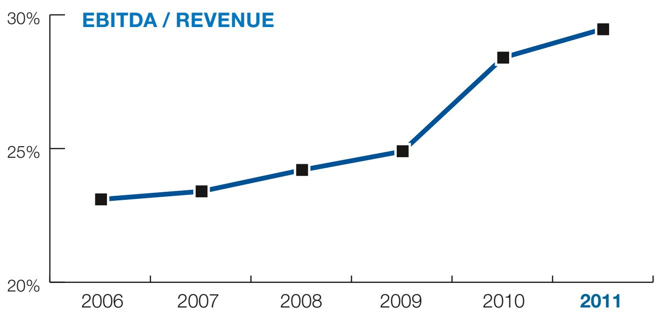
KIN LISTED NYSE EURONEXT

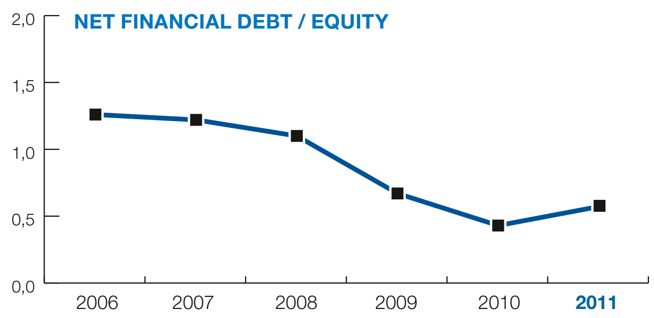
(1) Excluding Cinema City Poznan, operated by ITIT

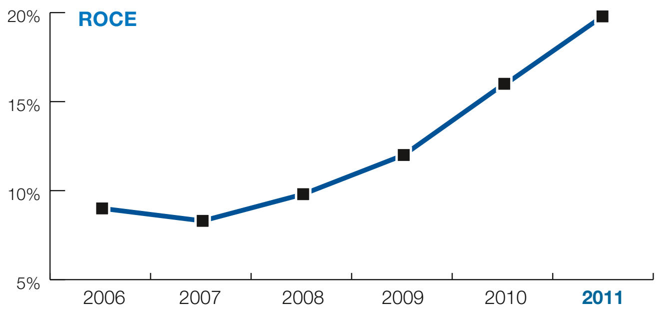
Ratios

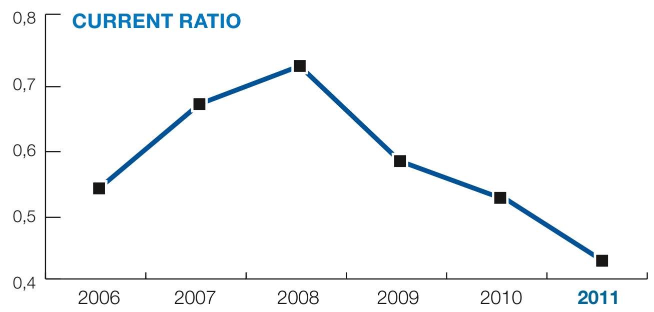
PROFITABILITY RATIOS	2006	2007	2008	2009	2010	2011
EBITDA / Revenue	23.1 %	23.4 %	24.2 %	24.9 %	28.4 %	29.4 %
Gross profit / Revenue	23.5 %	23.4 %	24.6 %	25.6 %	28.0 %	31.4 %
Operating profit / Revenue	12.6 %	11.8 %	13.2 %	13.8 %	18.9 %	21.0 %
Profit / Revenue	6.9 %	6.9 %	7.0 %	9.6 %	11.7 %	14.4 %

FINANCIAL STRUCTURE RATIOS	2006	2007	2008	2009	2010	2011
Net financial debt	136 570	138 868	129 248	89 364	66 956	76 501
Net financial debt / EBITDA	2.80	2.80	2.46	1.55	0.98	1.03
Net financial debt / Equity	1.26	1.22	1.10	0.67	0.43	0.57
Equity / Balance sheet total	30.8 %	31.2 %	33.3 %	38.6 %	48.3 %	41.0 %
Current Ratio	0.54	0.68	0.73	0.59	0.53	0.43
ROCE	9.0 %	8.3 %	9.8 %	12.0 %	16.0 %	19.8 %









02

Letter to shareholders

Letter to shareholders

Ladies and Gentlemen,
Shareholders, Customers, Employees,

2011 was a wonderful year for all our stakeholders: our customer experience rating was taken to the next level once again by substantial investments in our theatres and service; employees were given further opportunities to grow and develop in a dynamic, enthusiastic environment and our shareholders saw the Kinepolis share price increase by 11 % despite the unstable economic circumstances, and were rewarded with a dividend of € 1.26 at the end of May 2011, supplemented by a capital reduction of € 4.33 per share, which was paid out on 26 August 2011.

All these achievements are the result of consistently implementing a sustainable strategy of value creation, established in 2008, and are based on the three strategic pillars: best marketer, best cinema operator and best cinema property manager.

As '**best marketer**' Kinepolis aspires to evolve from the 'ultimate cinema experience' to the 'ultimate movie experience' based on 'active programming' to allow us to even better tailor our movie offering to the likes and tastes of our customers. To this end, we made investments to find out more about our customers and their preferences, as well as launching a new website (www.kinepolis.com) and new preference-driven apps. We also improved our offering of alternative films (Cinémanie) and alternative content.

KFD, our film distribution division, entered into a strategic partnership with Dutch Film Works, the leading independent film distributor in the Benelux, to expand its already broad catalogue.

Belgian screen advertising agency Brightfish was acquired to ensure the Belgian cinema industry has a stable partner once again.

As '**best cinema operator**', in 2011 Kinepolis continued to invest in customer experience, through theatre remodeling and digitization projects. Both investment programs are well advanced and have already started producing benefits. We continued to implement our strategy and ambition to be a self-learning organization where employees are encouraged to work toghether closely to link value creation to ever-improving customer and employee satisfaction, based on a facts and figures-driven management style. We are fully convinced that our value creation approach is sustainable in the long run.

As '**best cinema property manager'**, in 2011 Kinepolis continued to unlock the value of the property portfolio, our third strategic pillar. We are on track there. We continue to work hard on improving the value of our property.

In 2011 Kinepolis Group continued to work on the optimization of the capital structure through a 30 million euro capital reduction and the launch of a share buy-back programme. 395 502 shares were bought back in the course of the year and 349 423 shares were destroyed. The share buy-back programme will continue in 2012 as long as we feel that this creates value for our shareholders.

2012 looks very promising with major sequels in both 2D and 3D scheduled to hit screens, alongside some new titles. We expect an attractive offering of local content in each country, while alternative content will also be expanded.

In the first quarter of 2012 we agreed on a new € 90 million bank loan to refinance our syndicated credit facility and finance the Group's further general development. We also successfully issued retail bonds in Belgium with a maturity of seven years, which raised € 75 million.

From the left: Eddy Duquenne, Philip Ghekiere and Joost Bert

On 31 December 2011, Mrs Marie-Suzanne Bert-Vereecke (Pentascoop NV), founding director and Honorary President, resigned her seat on the Kinepolis Group board, after turning 80 years of age. Since its formation, Mrs Bert-Vereecke has been actively involved in the development of Kinepolis Group in various capacities and can look back on a long and successful career. We wish to thank Mrs Bert-Vereecke for her contribution to the development of the Group.

We would also like to thank you, our shareholders, customers and employees, for your contribution to our excellent results in 2011. We hope to at least equaling that performance in 2012.

Thank you for your trust and confidence.

Eddy Duquenne *CEO*	*Joost Bert* *CEO*	*Philip Ghekiere* *Chairman of the Board of Directors*

03 Management report

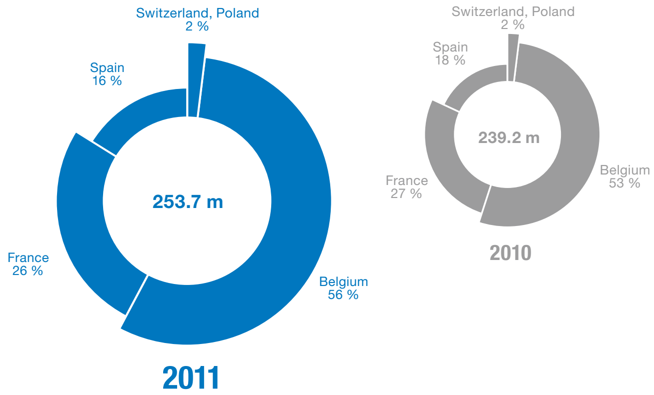
Results 2011

In 2011 Kinepolis Group confirmed the strategy defined in 2008. The focus on the three strategic pillars – Kinepolis strives to be the best marketer, the best cinema operator and the best cinema property manager – was translated as follows in the results for 2011:

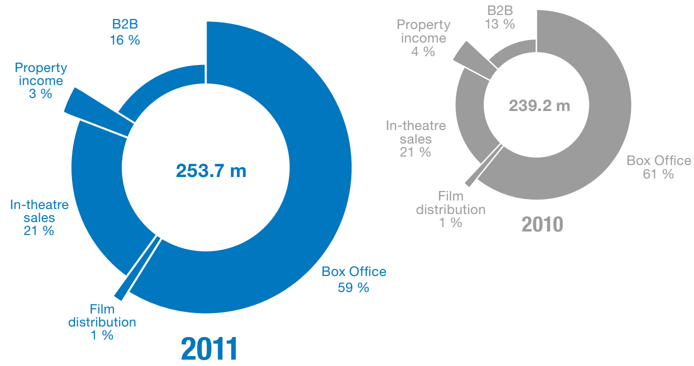
- ★ Box office [(1)] revenue, in-theatre sales [(2)] and business-to-business revenue rose by 2.5 %, 5 % and over 29 % respectively;
- ★ Internationally, we welcomed no less than 21.3 million visitors. This is comparable to the number of visitors in 2010;
- ★ The development of our property portfolio remains on track;
- ★ Current [(3)] EBITDA [(4)] increased by 7.8 %, the current [(3)] EBITDA margin rose to 28.3 % and current [(3)] profit grew by 25.5 % compared to 2010;
- ★ Profit per share was 32.1 % higher, partly driven by the destruction of 349 423 treasury shares;
- ★ Higher EBITDA and positive working capital movements (seasonality and timing effects) generated a significantly higher free cash flow [(5)]; and
- ★ Net financial debt was € 76.5 million, even after € 50.5 million capital optimization.

(1) Revenue from ticket sales.
(2) Revenue from the sale of beverages, snacks and merchandising in the cinema.
(3) After eliminating non-current transactions.
(4) EBITDA is not a recognized IFRS term. Kinepolis Group NV has defined this concept by adding depreciations, amortizations and provisions to the operating profit and subtracting any reversals or uses of the same items.
(5) Kinepolis Group NV defines the free cash flow as the cash flow generated from operating activities less the maintenance investments in other intangible assets, property, plant and equipment and investment property, paid interest charges, including the sales of property, plant and equipment and other financial assets.

REVENUE BY COUNTRY



REVENUE BY ACTIVITY



Revenue

Total revenue was € 253.7 million, a rise of 6.1 % compared to 2010. Customers showed their appreciation for continuing investments in customer experience (digitalization, facilities, Mega Candy).

The revenue can be broken down by country and activity, as shown above.

Box office revenue was € 149.1 million, a rise of 2.5 % compared to 2010, whereas the number of visitors remained virtually the same.

This rise is related to the improved product and country mix, price adjustments to compensate inflation and virtual print fee (VPF) revenue.

Kinepolis welcomed 21.3 million visitors in 2011, which comes close to the record number of visitors in 2010 (-0.3 % compared to 2010). Things picked up quite substantially in the final quarter of 2011. This was mainly due to the strong international offering and to the success of local movies in French and Belgian cinemas, as well as the lack of snow in December 2011. In Belgium the implementation of the marketing strategy also drove strong growth in online sales. Whereas 2010 was an atypical movie year with a very strong opening quarter (*Avatar*), 2011 was a movie year with a traditional spread of film offerings and visitors throughout the year.

Plenty of 3D films were released in 2011 (four of the top five were available in 3D). However, fewer tickets were sold to 3D screenings than in 2010, which was characterized by the major 3D success of Avatar.

In-theatre sales (ITS) rose by 5.0 % thanks to the optimization of the range, which is increasingly geared to the visitor, together with the continued rollout and the success of the Mega Candy self-service shops.

Business-to-business (B2B) revenue rose by 29.2 % compared to 2010, mainly thanks to the intensive efforts of the B2B sales teams, who concentrate on the sale of cinema vouchers and business events, among other things. Revenue from screen advertising also rose, as the market picked up in the three countries.

Property revenue increased by 1.0 %. At a constant exchange rate, year-on-year growth was 1.5 %. New rental agreements were signed in France, Poland and Switzerland. In Belgium rental income declined slightly as a result of the redevelopment of Kinepolis Leuven.

Revenue from **Kinepolis Film Distribution** (KFD) was € 2.3 million in 2011, a decrease of 26.5 % compared to 2010, due to fewer film releases. In 2011 KFD distributed, as the leading distributor of Flemish movies, releases such as *Bullhead*, *Hasta La Vista*, *Groenten uit Balen* and *Mega Mindy en de Snoepbaron*. In September 2011 KFD entered into a partnership with **Dutch Film Works** (DFW), the biggest independent distributor in the Netherlands. Under the partnership KFD distributes DFW catalogue titles in Belgium and Luxembourg.

REBITDA

Despite a constant number of visitors, current EBITDA (REBITDA(6)) rose by 7.8 % to € 71.7 million due to the continued focus on measures to improve efficiency and increase the margin. The REBITDA margin rose further to 28.3 %, compared to 27.8 % in 2010. Marketing and sales costs increased with regard to publicity and investments in talented employees, management and systems. Some of these were one-off costs. They are connected with the continued implementation of the strategic goal of Kinepolis to be the best marketer.

Profit for the period

Current profit for the period was € 35.2 million, a rise of 25.5 % compared to 2010 (€ 28.0 million). This rise is primarily due to a much higher operating profit combined with much lower interest charges.

Total profit for 2011 was € 36.5 million, compared to € 28.1 million in 2010, a rise of 30.0 %.

The main non-current items in 2011 were the capital gain of € 2.8 million on the completion of the final phases of the Ghent (Blijweert) property project (Belgium) and the sale of the former Opéra cinema in Liege (Belgium), transformation costs of € -0.7 million and profit from the acquisition of Brightfish NV of € 0.3 million.

The effective tax percentage fell to 27.3 %.

As a result, profit per share rose to € 5.53, a 32.1 % increase, partly due to the purchase and destruction of treasury shares in 2011 as part of the optimization of the capital structure.

Free cash flow and net financial debt

The free cash flow was € 56.1 million compared to € 38.6 million in 2010.

The increase in the free cash flow by € 17.5 million is primarily due to the higher EBITDA (€ 6.3 million) and positive working capital movements (€ 10.0 million).

The growth of the working capital can be primarily explained by the seasonal fluctuations in the cinema business and differences in the timing of collection and payment of receivables and payables.

In 2011 capital expenditure was € 13.0 million, € 1.2 million less than last year.

The net financial debt of Kinepolis was € 76.5 million as at 31 December 2011, an increase of only € 9.5 million compared to 31 December 2010 (€ 67.0 million) despite the paid-out capital reduction of € 28.7 million and the share buy-back to the value of € 21.6 million. The NFD/EBITDA ratio remained conservative at 1.0 as of 31 December 2011.

Compared to the previous year the total gross financial debt rose by € 14.7 million to € 94.5 million as at 31 December 2011.

Balance sheet

Property, plant and equipment (including those available for sale) of € 278.9 million accounted for 85.3 % of the balance sheet total at 31 December 2011. This includes land and buildings (including those available for sale and investment property) with a carrying value of € 198.9 million.

As at 31 December 2011 equity was € 133.9 million. Solvency was still 41.0 %, even after the capital optimization of € 50.5 million.

Outlook and line-up

The line-up for 2012 looks promising with major sequels in both 2D and 3D (including *Ice Age 4*, *Madagascar 3*, *Men in Black 3*, *Twilight 4 part 2* and *Spiderman 4*). A number of new titles will also be released (including *The Hobbit*, *Django Unchained* and *The Avengers*). There will be an interesting offering of local films in all countries, too. In Flanders they include *Allez Eddy* and the new Felix van Groeningen film *The Broken Circle Breakdown*, in France *La Vérité si je Mens 3* and *Asterix et Obelix: God Save Britannia* and in Spain *Lo Impossible*, *Tengo ganas de ti*, *Grupo 7* and *Redlights*.

Kinepolis will also continue to complement the film offering with more specialized programming, such as Ladies@theMovies and Cinémanie, as well as alternative live content, such as opera, ballet, theatre, musicals and sport, with which we hope to attract a new cinema audience.

(6) REBITDA is not a recognized IFRS term. Kinepolis Group NV defines this term as the current operating profit plus the current depreciations, amortizations, impairments and provisions (including any reversals or uses of these items).

Key events after the end of the fiscal year 2011

On 23 January 2012 Kinepolis launched a new website, personalized iPhone, iPad and Android apps, and the My Kinepolis newsletter, tailored to the film and event lover in 2012. The Kinepolis website will also be personalized in the spring of 2012.

Within the framework of the refinancing of its existing syndicated credit and the financing of the further general development of the Group, on 15 February 2012 Kinepolis signed a new € 90 million credit facility agreement with ING Belgium, KBC Bank and BNP Paribas Fortis, and on 22 February 2012 published an invitation to subscribe to non-subordinated bonds in Belgium to generate at least € 50 million and up to € 75 million. These bonds mature in seven years and have a fixed annual gross interest of 4.75 %. Due to the massive response, the subscription period was closed early on 22 February 2012 by mutual agreement between Kinepolis Group NV and the joint lead managers BNP Paribas Fortis, KBC Bank and ING Belgium. The total amount of the issue was € 75 million. The bonds were issued and listed on NYSE Euronext Brussels on 6 March 2012.

On 29 February 2012 Kinepolis Group announced a new share buy-back program, by which an intermediary is mandated to buy up to 300 000 own shares on or off the stock exchange from 1 March 2012 up to an including 31 May 2012.

Mr Nicolas De Clercq was appointed Chief Financial Officer of Kinepolis Group on 12 March 2012. Nicolas De Clercq succeeds Henk Rogiers, who has decided to end the working relationship by mutual agreement with the Company. Nicolas De Clercq, 40 years old, has many years' international financial experience in various sectors. Previously he was Vice President Finance at USG People, where he had financial responsibility for USG People's Dutch and German markets. In the past he has held various financial management positions at KBC (Kredietbank), Telenet, Solvus and USG People. He has extensive management experience in finance and IT, including integrating new acquisitions. He has been responsible for various back office and shared service centre integrations as well as for streamlining financial and operating processes.

Corporate Governance Statement

Pursuant to the Belgian Corporate Governance Code of 12 March 2009 (hereinafter the 'Code'), the stipulations of which Kinepolis Group NV subscribes to, the Board of Directors approved on 17 December 2009 a revised version of the Corporate Governance Charter of Kinepolis Group NV of 18 December 2007. The Charter is available on the Kinepolis Investor Relations website.

In this chapter of the annual report more factual information is provided on the Corporate Governance policy pursued in the fiscal year 2011, together with an explanation of the deviations from the Code in accordance with the 'comply or explain' principle.

Issued capital

Following the capital reduction of € 30 010 268.74 carried through by the Extraordinary General Meeting of 20 May 2011, at 31 December 2011 the authorized capital amounted to € 18 952 288.41.

This Extraordinary General Meeting also authorized the Board of Directors to buy back, under certain conditions, up to 1 108 924 own shares, of which 1 074 270 for destruction and 34 654 to hedge new options. In 2011 the Company bought back 395 502 shares under this authorization.

After the destruction of 349 423 treasury shares by the Board of Directors on 15 December 2011, the authorized capital is represented by 6 581 355 shares without nominal value, all of which give the same rights to holders. After the destruction, as at 31 December 2011 Kinepolis held 323 310 treasury shares with a combined capital value of € 931 034.

The Board of Directors has the power until 7 June 2012 to increase the authorized capital, through one or more transactions up to a maximum of € 48 883 132.15.

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

According to the provisions of the articles of association, eight directors will be appointed from among the candidates nominated by Kinohold Bis SA, 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 11 of the Companies Code) solely or jointly hold at least thirty-five per cent (35%) of the shares of the Company, both when the candidate is nominated and when the candidate is appointed 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 11 of the Companies Code) 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 capital of the Company.

Shareholder agreements

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

Change of control

Under the terms of the Credit Agreement concluded on 15 February 2012 between, on the one hand, Kinepolis Group NV and a small number of her subsidiaries, and on the other, Fortis Bank NV, KBC Bank NV and ING Belgium NV, a participating financial institution can end its participation in that agreement, in which case the relevant part of the outstanding loan amount will be immediately due if other natural persons or legal entities than Kinohold Bis SA (or its legal successors) and Mr Joost Bert acquire control (as defined in the Credit Agreement) of Kinepolis Group NV.

Furthermore, in case of a change of control, under the General Terms and Conditions of the Listing and Offering Prospectus dated 17 February 2012 with regard to a bond issue in Belgium, any bond holder will have the right to oblige Kinepolis Group to repay the nominal amount of all or a part of the bonds, under the conditions set forth in the Prospectus.

Shareholders' structure and Received notifications

Within the framework of article 74 of the Public Acquisition Bids Act of 1 April 2007, in the fiscal year under review Kinepolis Group received an update of the notifications that the Company received on 26 August 2009 from the following persons, acting by mutual agreement (either because they are 'affiliated persons' within the meaning of article 11 of the Companies Code or they are otherwise acting by mutual agreement) and collectively holding more than 30% of the voting shares of Kinepolis Group: Kinepolis Group NV, Kinohold Bis SA, Stichting Administratiekantoor Kinohold, Marie-Suzanne Bert-Vereecke, Joost Bert, Koenraad Bert, Geert Bert and Peter Bert.

From this update, from later transparency notifications (within the framework of the Act of 2 May 2007 and the Royal Decree of 14 February 2008 on the disclosure of major stakes) and from reports within the framework of the share buy-back program, as of 31 December 2011:

- Kinohold Bis SA held 2 540 010 shares or 38.59 % of the shares of the Company; 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 of directors of Stichting Administratiekantoor Kinohold): Marie-Suzanne Bert-Vereecke, Joost Bert, Koenraad Bert, Geert Bert and Peter Bert; Kinohold Bis SA further acts in close consultation with Joost Bert;
- Kinepolis Group NV, which is controlled by Kinohold Bis SA, held 323 310 shares or 4.91 % treasury shares;
- Mr Joost Bert, who acts in close consultation with Kinohold Bis SA, held 41 600 shares or 0.6 % of the shares of the Company.

Shareholders' structure at 31 December 2011

SHAREHOLDER	NUMBER OF SHARES	%
Kinohold BIS and Mr Joost Bert	2 581 610	39.23
Kinepolis Group NV	323 310 (1)	4.91
Free Float, of which:	3 676 435	55.86
- Axa SA	505 416 (2)	7.68
- Ameriprise Financial Inc (Threadneedle)	266 256 (2)	4.04
TOTAL	**6 581 355**	**100**

(1) Number of treasury shares varies based on the share buy-back program
(2) As resulting from the transparency notifications

Amendments to the articles of association

Amendments can be made to the articles of association with due consideration for the stipulations in the Companies Code.

BOARD OF DIRECTORS (from the left): Raf Decaluwé, Eddy Duquenne, Philip Ghekiere, Joost Bert, Geert Vanderstappen, Marie-Suzanne Bert-Vereecke (until 31 December 2011), Marc Van Heddeghem and Marion De Bruyne.

Board of Directors and Special Committees

Composition of the Board of Directors

After the resignation of Pentascoop NV, whose permanent representative is Mrs M.S. Bert-Vereecke, on 1 January 2012 the Board of Directors consisted of seven members, four of whom are deemed to be independent of the majority shareholders and management. These four directors fulfill the criteria for independent directors as stated in the Article 526 ter of the Companies Code and were appointed upon nomination by the Board of Directors, which was advised on this matter by the Nomination and Remuneration Committee. The majority shareholders did not use their nomination right with regard to these appointments.

The Board regularly reviews the criteria for its composition and for the composition of its committees, based on existing and future developments and expectations, as well as its strategic objectives. Over the coming years the Board of Directors will give further attention to the diversity of its members, including gender diversity, and make appropriate efforts to bring the composition into line with the requirements of Article 518 bis of the Companies Code within the terms laid down there.

Directors as per 31 December 2011

NAME	POSITION	TERM ENDS	OTHER POSITIONS AT LISTED COMPANIES	ATTENDANCE RECORD
Mr Philip Ghekiere (1) (2)	Chairman	2012	/	All meetings
Mr Eddy Duquenne	CEO	2012	/	All meetings
Mr Joost Bert (2)	CEO	2012	/	All meetings
Mr Geert Vanderstappen, permanent representative of Management Center Molenberg bvba (1)	Independent Director	2014	Spector Photo Group NV: Director	13 meetings
Mr Marc Van Heddeghem (1)	Independent Director	2014	Leasinvest Real Estate Bevak: Director / Befimmo NV: Director	13 meetings
Mrs Marion Debruyne, permanent representative of Marion Debruyne bvba (1)	Independent Director	2012	/	12 meetings
Mr Rafaël Decaluwé, permanent representative of Gobes Comm. V. (1)	Independent Director	2012	Jensen Group NV: President	All meetings
MANDATE ENDED ON 31 DECEMBER 2011:				
Mrs Marie-Suzanne Bert-Vereecke, permanent representative of Pentascoop NV (1) (2)	Honorary President		/	6 meetings

(1) Non-executive director
(2) Represent the majority shareholders

Contrary to Stipulation 2.9 of the Belgian Corporate Governance Code 2009, the Board of Directors has not appointed a secretary, as it believes these duties can be fulfilled by the President assisted by the corporate lawyer, bearing in mind the limited size of the Company.

The table on the previous page shows the composition of the Board of Directors as well as the attendance record of the various directors with respect to the 14 meetings that took place in 2011.

Activity Report of the Board of Directors

In addition to the duties assigned to the Board of Directors by the Companies Code, the articles of association and the Kinepolis Corporate Governance Charter, the following items were handled on a regular basis:

- Review of the monthly actual revenues and financial results together with the forecasts;
- Progress reports on ongoing cinema and real estate projects;
- Up-to-date treasury situation and cash flow planning.

Appropriate attention was also given inter alia to the following items:

- Discussion and establishment of the profit plan for the following fiscal year;
- Discussion and decision on new cinema and property opportunities;
- Establishment of the short-term and long-term strategy, including the financing strategy;
- Discussion on refinancing;
- Launch of the share buy-back programs;
- Reports of the Nomination and Remuneration Committee and the Audit Committee;
- Evaluation and establishment of the quantitative and qualitative management targets for Executive Management.

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

Nine meetings are scheduled in 2012. Additional meetings may be held if needed.

Composition and activity report of the Nomination and Remuneration Committee

In accordance with the possibility provided for in the Corporate Governance Code, Kinepolis Group has one joint committee – the Nomination and Remuneration Committee. At 31 December 2011 this committee comprised the following non-executive directors, the majority of whom were independent directors with the necessary expertise and professional experience in human resources, bearing in mind their previous and/or current business activities:

- Mr Philip Ghekiere (Chairman Kinepolis Group NV and Investment Director at NPM Capital);
- Mr Marc Van Heddeghem (former Managing Director of Redevco Belgium);
- Mr Rafaël Decaluwé (former CEO of Bekaert NV).

The Chief Executive Officers attend the meetings of the Nomination and Remuneration Committee (NRC) by invitation.

The NRC met four times in 2011 in the presence of all members and mainly dealt with the following:

- Proposals to set the qualitative and quantitative management targets with regard to the fiscal year 2011 for Executive Management and the corresponding variable remuneration and out-performance bonus;
- Evaluation of the attainment of the management targets with regard to the fiscal year 2010 and the variable remuneration and out-performance bonus of Executive Management for that fiscal year;
- The proposed remuneration policy for Executive Management for the fiscal years 2011-2012;
- An evaluation of the remuneration for the Board of Directors and its committees;
- The enlargement of the existing option plan;
- The Remuneration Report proposal to be submitted to the Board of Directors.

Composition and activities report of the Audit Committee

Pursuant to Article 526 bis of the Companies Code, as at 31 December 2011, the Audit Committee was exclusively composed of non-executive and independent directors with the appropriate expertise and professional experience in accounting and auditing, bearing in mind their previous and/or current business activities:

- Mr Geert Vanderstappen combines five years' experience as Corporate Officer at Generale Bank's Corporate & Investment Banking with seven years' operational experience as CFO at Spector Photo Group and is now Managing Partner at Pentahold;
- Mr Rafaël Decaluwé is a former CEO of Bekaert NV and had a long career in financial management positions at a number of multinationals, including Samsonite, Fisher-Price and Black & Decker.

The Chief Financial Officer, the Chief Executive Officers and the internal auditor attend the meetings of the Audit Committee.

The representatives of the majority shareholders may attend meetings upon invitation.

In 2011 the Audit Committee met four times, with all its members, and primarily the following items were handled:

- Discussion on financial reporting in general and the unconsolidated and consolidated annual and interim financial statements in particular;

- Discussion, establishment and monitoring of the internal audit activities, including the discussion of the annual report of the Internal Audit department;
- Discussion and evaluation of the internal control and risk management systems;
- Evaluation of the effectiveness of the external audit process;
- Monitoring of the financial reporting and its compliance with the applicable reporting standards.

Evaluation of the Board of Directors, its committees and its individual directors

Under its Chairman, the Board of Directors regularly evaluates its own size, composition, performance and those of its committees. An extensive formal evaluation was conducted at the beginning of 2011 and the appropriate measures were taken to implement the responses to its findings.

The scope of this evaluation consisted inter allia of:

- The composition of the Board of Directors and its committees, based on the nature of the Company and the future challenges, and bearing in mind the need for diversity within the Board in terms of competence in different disciplines, experience from different sectors, age and gender;
- Assessment of the director selection and appointment process;
- Assessment of the functioning of the Board of Directors and its committees;
- Analysis of whether the most important points on the agenda are properly prepared and discussed;
- Assessment of the effective contribution of each director by his or her presence at the meetings and his or her constructive participation in them, with due consideration for the competence of each individual director;
- Assessment of the remuneration of the directors and Executive Management;
- Interaction with Executive Management.

The evaluation process is initiated by the Chairman of the Board of Directors on the basis of a written procedure, the results of which are analyzed and discussed at the NRC as well as at the Board of Directors, where the appropriate conclusions are drawn. The non-executive directors also assess their interaction with Executive Management.

Executive Management

Executive Management consists of the two Chief Executive Officers. The Board of Directors is authorized to appoint additional members of Executive Management.

Insider Trading Policy – Code of Conduct – Transactions with related parties

The Company's policy on insider trading is included in an Insider Trading Protocol that applies to the members of the Board of Directors, the Chief Executive Officers and other persons who might have inside knowledge. The Protocol is designed to ensure that share trading by the persons in question only occur strictly in accordance with the Act of 2 August 2002 on the Supervision of the Financial Sector, and in accordance with the guidelines issued by the Board of Directors. The Chief Financial Officer is responsible, as Compliance Officer, for monitoring compliance with the rules on insider trading as set out in this Protocol.

In 2012 a Code of Conduct will be introduced containing the appropriate guidelines, values and standards with regard to the ethical and fitting way Kinepolis wishes to treat employees, customers, suppliers, shareholders and the general public.

The **transactions with related parties** as included in point 29 of the Notes to the Consolidated Financial Statements were conducted in complete transparency with the Board of Directors.

Remuneration Report

Kinepolis Group provides transparent information on remuneration of members of the Board of Directors and Executive Management to its shareholders and other stakeholders.

Procedure for establishing the remuneration policy and level for the Board of Directors and Executive Management

Principles

The principles of the remuneration policy and level for the directors and Executive Management are stated in the Company's Corporate Governance Charter.

The remuneration policy is designed in such a way that the remunerations for the directors and Executive Management are reasonable and appropriate enough to attract, retain and motivate the persons meeting the profile established by the Board of Directors, with due consideration for the size of the Company and the external benchmark data.

The following principles are also employed:

- For the fulfilment of their duties as a member of the Board of Directors, the non-executive directors receive a fixed amount based on the number of meetings of the Board of Directors they attend;
- The members of the committees are also allocated a fixed amount every time they attend a meeting of the committee, with additional fixed remuneration for the Chairman of the Audit Committee;

- The Chairman of the Board of Directors and the Chief Executive Officers are allocated a fixed annual amount. The fixed amount allocated to the Chairman also comprises the remuneration for the attendance and Presidency of the NRC;
- The non-executive directors do not receive any bonuses, participation in long-term share-based incentive programs, benefits in kind or benefits related to pension plans;
- Alongside fixed remuneration, Executive Management receives variable remuneration dependent on the attainment of the management targets set by the Board of Directors on the recommendation of the NRC. These targets include both quantitative targets set annually, the criterion for which is the attainment of a certain level of consolidated current net profit, and qualitative targets, which are defined as targets that are to be attained over several years, progress of which is evaluated on an annual basis. The significant variable part of the remuneration ensures that the interests of Executive Management run parallel to the Group's, lead to value creation and loyalty, and provide the appropriate incentive to optimize the short-term and long-term objectives of the Group and its shareholders;
- Additional to this variable remuneration, an out-performance bonus may be allocated to Executive Management if the quantitative targets are substantially exceeded. Long-term incentives in the form of share options or other financial instruments of the Company or its subsidiaries may also be allocated to Executive Management. The remuneration package for Executive Management may additionally include participation in the corporate pension plan and the use of a company car;
- The Company's formal right to claim back variable remuneration and out-performance bonuses granted on the basis of incorrect financial data was not yet provided for in 2011. The Company will examine the introduction of such a right in more detail in the course of 2012;
- The exit compensation of a member of Executive Management in the event of early termination of a contract (entered into after 1 July 2009) will not exceed twelve months' basic and variable remuneration. A higher compensation may be granted in specific justifiable circumstances, on the recommendation of the NRC and with the prior approval of the General Meeting, but may never exceed eighteen months' basic and variable remuneration. In any event, the exit arrangement shall not exceed twelve months' basic remuneration and the variable remuneration shall not be obtainable if the departing person has not achieved the performance criteria stated in his or her contract.

Procedure

The annual overall remuneration for the members of the Board of Directors will be established by the General Meeting following a proposal from the Board of Directors (on the basis of the recommendation by the NRC), which will be based on the amounts revised in 2011, with due regard for a minimum number of actual meetings of the Board of Directors and its committees. The apportionment of the overall portfolio to the individual members is a decision of the Board of Directors on the recommendation of the NRC, based on their actual attendance at the various meetings of the Board of Directors and its committees.

The above-mentioned revision was based on benchmarking using surveys conducted by independent third parties with regard to listed and other companies. As a result of the study, in 2011 the remuneration for non-executive directors was adjusted as follows to bring it into line with the rest of the market:

- The remuneration for attending six or more meetings of the Board of Directors was raised from € 22 500 to € 32 500; the remuneration will be reduced proportionately if fewer meetings are attended;
- The remuneration for attending a meeting of the Audit Committee or the Nomination and Remuneration Committee was raised from € 2 500 to € 3 000 (1);
- The additional fixed remuneration for the president of the Audit Committee of € 3 750 remains unchanged;
- The fixed remuneration for the President of the Board of Directors of € 85 000 also remains unchanged.

The Board of Directors determines the remuneration as well as the remuneration policy of Executive Management based on the proposal of the NRC, with due consideration for the relevant contractual stipulations and benchmark data from other comparable listed companies to ensure that these remunerations are in line with market rates, bearing in mind the duties, responsibilities and management targets.

The management targets to which the variable remuneration is linked and the amount of variable remuneration are proposed annually by the NRC and approved by the Board of Directors. The Board of Directors evaluates the attainment of these quantitative and qualitative targets on the basis of an analysis by the NRC. The attainment of the quantitative targets will be measured against current net profit on a consolidated basis. The qualitative targets to be attained over more than one year will be evaluated on an annual basis against progress towards each specific target.

On the proposal of the Board of Directors, which is of the opinion that the quantitative and qualitative management targets are set to also favour the long-term goals of the Company, on 20 May 2011 the General Meeting approved the proposal to base the integral annual variable remuneration of the CEOs for the fiscal years 2011, 2012 and 2013 on objective and measurable performance indicators agreed in advance and always measured over a period of one year, in accordance with article 520 ter of the Companies Code.

(1) This amount will be reduced when meetings are attended by phone conference.

NAME	TITLE	REMUNERATION 2011 (IN €)
BOARD OF DIRECTORS AS AT 31 DECEMBER 2011		
Philip Ghekiere	Chairman	85 000
Eddy Duquenne	CEO	30 000
Joost Bert	CEO	30 000
Geert Vanderstappen (Management Center Molenberg bvba)	Independent Director	45 250
Marc Van Heddeghem	Independent Director	41 500
Marion Debruyne (Marion Debruyne bvba)	Independent Director	32 500
Rafael Decaluwé (Gobes Comm. V)	Independent Director	50 500
MANDATE ENDED ON 31 DECEMBER 2011		
Marie-Suzanne Bert-Vereecke (Pentascoop NV)	Founding member – Honorary President	50 000 (2)
TOTAL		**364 750**

(1) This amount will be reduced when meetings are attended by phone conference.
(2) Fixed amount granted to the Honorary President.

Application of the remuneration policy on the members of the Board of Directors

In line with the remuneration policy, in the year under review the non-executive directors of the Company were remunerated for their services with a fixed amount per meeting of the Board of Directors and its committees. The president of the Audit Committee receives additional fixed remuneration.

The Chairman of the Board of Directors and the Chief Executive Officers are granted a fixed annual amount. The individual remuneration of directors in the fiscal year 2011 is shown in the table above. All amounts are gross amounts before deduction of tax.

In the year under review, the non-executive directors received no other remuneration, benefits, share-based or other incentive bonuses from the Company.

Furthermore, Pentascoop NV, whose permanent representative is Mrs M.S. Bert-Vereecke, was paid annual remuneration of € 166 996 for the industry know-how of Mrs M.S. Bert-Vereecke and her contribution to the development of the Group in her capacity of founder, in accordance with agreements made when Kinepolis Group was formed and as long as Mrs M.S. Bert-Vereecke remains a member of the Board of Directors. Bearing in mind the ending of her term of office, this remuneration will no longer be granted as of the fiscal year 2012. As a result of this ending and on an exceptional basis, the Board of Directors decided to grant Pentascoop NV a one-off golden handshake in the amount of € 200 000, in recognition of the major contribution to the development, growth and professionalization of Kinepolis Group.

All members of the Board of Directors as well as directors of the subsidiaries of the Company are also covered by a 'civil liability of directors' policy, the total premium of which amounts to € 20 484 (incl. tax) and is paid by the Company.

Application of the remuneration policy on the members of Executive Management

With due consideration for the benchmark data, the duties, responsibilities and management targets, **in 2011** the remuneration package for Executive Management for the fiscal years 2011-2012 was set by the Board of Directors based on the proposal of the Nomination and Remuneration Committee. By which:

- Contrary to the existing contractual agreements, it was decided to no longer apply the annual adjustment in line with the consumer price index;
- The ratio of qualitative and quantitative targets will be 30/70;
- The following amounts will be applied for BVBA Eddy Duquenne:
  - fixed remuneration: € 330 000
  - maximum variable remuneration: € 265 000
  - maximum out-performance bonus: € 150 000
- The following amounts will be applied for Mr Joost Bert:
  - fixed remuneration: € 285 000
  - maximum variable remuneration: € 215 000
  - maximum out-performance bonus: € 75 000

The amount of the variable remuneration ultimately granted to Executive Management depends on the fulfilment in 2011 of the annual management targets, which apply collectively to Executive Management and comprise both quantitative targets, of which the criterion is the attainment of a certain level of consolidated current net profit, and qualitative targets. The targets were established to ensure that they help attain not only the short-term goals but also the long-term goals of the Group.

In addition to the variable remuneration and if the quantitative management targets are substantially exceeded, the Board of Directors, on the recommendation of the NRC, has the discretionary power to allocate an out-performance bonus, the annual amount of which is set by the Board of Directors.

The above-mentioned remunerations will be paid out in 2012 if the targets are attained.

The table below provides an overview of the fixed part of the remuneration, the other components of the remuneration (pension contributions, insurances, car allowances etc.) as well as the variable part.

NAME	REMUNERATION	CASH AMOUNT PAID (EXCL. VAT) (IN €)
CEO		
Eddy Duquenne bvba	Fixed remuneration (1)	330 000
	Variable remuneration (2)	215 000
	Out-performance bonus (2)	154 000
	Car allowance (4)	33 283
	TOTAL	**732 185**
Joost Bert	Fixed remuneration (1)	285 000
	Variable remuneration (2)	215 000
	Out-performance bonus (2)	77 000
	Pension scheme (3)	9 789
	Car allowance (4)	36 669
	TOTAL	**616 909**

(1) Other than remuneration received as a member of the Board of Directors (which amounts to € 30 000 for each director)
(2) Received in 2011 for performances in 2010
(3) Mr Joost Bert participates in a supplementary pension scheme providing for an annual indexed fixed contribution
(4) Indexed annually and excl. fuel card

For the fiscal year 2010, given the fulfilment of the quantitative and qualitative management targets accounting for 70% and 30% respectively of the variable remuneration, as set by the Board of Directors assisted by the NRC, the variable remuneration was paid out in full to the members of Executive Management in a total amount of € 430 000. An out-performance bonus of € 231 636 was also paid out, because the quantitative targets were substantially exceeded.

Finally, it can be noted that, pursuant to contractual agreements reached prior to 1 July 2009, in the event of the early termination of the contract of one of the members of Executive Management and if there is a change in the control of the Company, the exit package can be 24 months' fixed remuneration plus the pro-rata part of the variable remuneration for the ongoing year.

Long-term incentives

The goal of the 2007-2016 Share Option Plan (the 'Plan') approved on 5 November 2007 by the Board of Directors is to support and achieve the following corporate and human resources policy targets:

- To encourage and reward the executive directors and management staff of the Company and its subsidiaries, who are able to contribute to the long-term success and growth of the Company and its subsidiaries;
- To assist the Company and its subsidiaries in attracting and retaining directors and management staff with appropriate experience and skills; and
- To link the interests of the directors and management staff more closely to those of the shareholders of the Company and give them the possibility of sharing in the created value and growth of the Company.

On 25 March 2011 the Board of Directors decided to enlarge the Share Option Plan with an additional 34 654 new options, so that these options could be granted to new management staff.

Under the Plan 69 308 options each were granted to the Chairman[1] and the CEO's in 2008. In 2009 management staff were granted 30 000 options, in 2010 15 000 and in 2011 47 500.

In 2011 no shares or options were granted to the CEO's and no options were exercised. A further description of the characteristics of these options is provided in point 21 of the Notes to the Consolidated Financial Statements.

Fiscal years 2012-2013

In 2011 the remuneration package for Executive Management was established for the fiscal year 2012, as described before.

For the fiscal years as of 2013 a new benchmark test will be performed to ensure the remuneration in question remains in line with the remuneration for executive management of comparable companies.

Description of the main characteristics of the internal control and risk management system

Kinepolis Group NV uses the Integrated Framework for Enterprise Risk Management as developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework integrates internal control and risk management processes with the purpose of identifying and managing strategic, operational and reporting risks as well as compliance and regulatory risks as to enable the achievement of the corporate objectives.

Kinepolis Group NV uses this framework to implement a system to control the above risks in the business processes and financial reporting. The system is developed centrally and is as much as possible uniformly applied in the various parts of the organization and subsidiaries. The system fills in the various

(1) In his former capacity of Executive Director

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

Within Kinepolis Group, risk management is not the exclusive responsibility of the Board of Directors and Executive Management; 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 risk management of the Board of Directors (and its various committees) and Executive Management are established and described in detail in legal stipulations, the Belgian Corporate Governance Code 2009 and the Kinepolis Corporate Governance Charter. In brief, it can be stated that Executive Management bears final responsibility for the appropriate implementation and management of the risk management system, whereas 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 responsible not only 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 direct reports (who may in turn be managers). In this way, management can be confident of proper and comprehensive risk management throughout the Company and have peace of mind that related risks in the various business processes and departments are tackled in an integrated way.

Application of the various components

The way in which the Company applies the various components of the COSO ERM framework is outlined below. This description covers only the most important elements and is therefore not exhaustive. In addition, the appropriateness of the application is regularly evaluated and so permanently subject to change.

Internal Environment

An appropriate internal environment is a precondition of being able to effectively apply other risk management components. With this in mind, Kinepolis Group values integrity and ethical action highly. Alongside the existing legal framework, Kinepolis Group endeavors to encourage and enforce this type of behaviour through preventive measures (such as work regulations, various policies and procedures) and detection measures (such as the reporting procedure and compliance inspections).

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

In addition, correct employee training and guidance is essential to 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. An introductory risk management course is also given to new managers, on an annual basis.

Objective setting

There must be explicit objectives before management can identify the risks that impact the attainment of these objectives and manage them in an effective and efficient way.

Business objectives are established over various durations in line with the Kinepolis mission. As described in the Corporate Governance Charter, these are confirmed on an annual basis by the Board of Directors, which also ensures they are in line with the Company's risk appetite.

The (financial and non-financial) objectives established at consolidated level are gradually developed into related and aligned objectives for individual countries, business units and departments on an annual basis. The lowest level is the determination of the related 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 every year as part of a formal HR evaluation process.

Internal Control

Internal Control encompasses the identification and assessment of business risks as well as the selection, implementation and management of the appropriate risk management tools (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 or 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, Kinepolis endeavors to standardize the process as much as possible. This is achieved by imposing corporate ERM training, policies and procedures as well as standard lists of internal controls that need to be implemented.

The Board of Directors and Management of Kinepolis 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 Kinepolis Group for business operations in general and risk management in particular 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 in legal provisions, the Corporate Governance Code 2009 and the Corporate Governance Charter, Kinepolis primarily relies on the following monitoring activities:

- Business Controlling. The Management, supported by the Business Controlling department, analyzes the progress made towards the targets and explains the discrepancies on a monthly basis. This analysis may identify potential improvements which could be made to the existing risk management activities and measures.
- Internal Audit. The existing risk management activities and measures are evaluated and compared with internal rules and best practices on a regular basis by the Internal Audit department. Potential improvements are discussed with Management and lead to the implementation of action points that further enhance risk management.

Description of the main business risks

On an annual basis, the Board of Directors and Management conduct a risk assessment to gain insight into the main business risks, which assessment is subsequently analyzed and approved by the Board of Directors. As in 2010, in 2011 this occurred on the basis of a written survey of the participants, which led to both quantitative and qualitative results, enabling risks to be assessed in order of scale. Although this way of working enables Kinepolis to distinguish important risks from less important risks in a well-founded way, it remains an estimation that, inherent to the definition of risk, provides no guarantee whatsoever of the actual occurrence of risk events. The following list therefore contains only some of the risks to which Kinepolis is exposed.

Availability and quality of supplied material.
Bearing in mind that Kinepolis Group NV does not produce any material itself (such as movies), it is dependent on the availability, diversity and quality of movies as well as the possibility of being able to rent this material from distributors. Kinepolis Group NV endeavors to protect itself wherever possible by maintaining good long-term relations with the major distributors or producers, by pursuing a content diversification policy and by playing a role as distributor in Belgium. The investments in Tax Shelter projects should also be viewed in this light.

Seasonal effects
The operating revenues of Kinepolis Group can vary from period to period, because 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. Kinepolis largely accepts this risk, considering that the costs of a financial hedging policy would exceed the revenue from it.

Competition
Kinepolis Group's position as a cinema operator is subject to competition just like every other product or service for which substitution exists. This competition comes from the cinemas of other operators – both existing and prospective – in the markets where the Group is active and from the increasing distribution and availability of movies through non-cinema channels, such as video-on-demand, pay-per-view and internet. This development can also be influenced by the shortening of the period ordinarily observed by the distributors, between the first screening of a movie in the cinema and its availability through other channels, as well as the constant technical improvement in the quality of these alternative ways of watching movies. Besides these legal alternatives, the cinema industry also has to deal with illegal downloads. Kinepolis is working actively with distributors to agree measures to counter any increasing illegal sharing of material online. Kinepolis Group's position can also be impacted by increasing competition from other leisure activities, such as concerts and sporting events, which, while they are not strictly part of the same relevant product market, can influence the behaviour of Kinepolis' customers.

Kinepolis 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 and film experience.

Economic situation
Changes to the general, global or regional economic situation or the economic situation in areas where Kinepolis Group NV is active and that can impact consumer behaviour and the production of new movies, can have a negative impact on Kinepolis Group's operating profits. Kinepolis endeavors to arm itself against this threat by being rigorously efficient and closely monitoring and controlling costs and margins. Changing economic conditions can also increase competitive risks.

Risks associated with current and future acquisitions
In the event of any acquisition, competition authorities can impose additional conditions and restrictions with regard to the growth of Kinepolis Group (see also 'Political, regulatory and competition risks' below). Certain inherent risks are also associated with any acquisition that can have a negative impact on the goals set. With this in mind, Kinepolis Group will thoroughly examine acquisition opportunities in advance, to ensure these risks are properly assessed and, where necessary, controlled.

Political, regulatory and competition risks
Kinepolis Group strives to operate within the legal framework at all times. However, additional or amended legislation, including tax laws, could restrict Kinepolis' growth and operations or result in additional investments or costs. Where possible, Kinepolis Group actively manages these risks by notifying the relevant political, administrative or legal bodies of its positions and defending them in an appropriate way. Belgium's Competition Council has imposed a number of conditions and restrictions on Kinepolis Group, such as the need for its prior approval of plans to build new cinema multiplexes or acquire existing cinema multiplexes in Belgium.

Technological risks

Cinema has become a highly computerized and automated sector in which the correct technological choices and optimal functioning of projection systems and other ICT systems are critical to be able to offer customers optimal service. Kinepolis Group manages these risks by closely following the latest technological developments, regularly analyzing and, where necessary, optimizing system architecture and implementing best ICT practices.

Employee risks

As a service company, Kinepolis Group largely depends on its employees to provide 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. Kinepolis accepts this challenge by offering attractive terms of employment, good knowledge management and a pleasant working atmosphere. Kinepolis measures employee satisfaction on the basis of employee surveys and where necessary improves its policies.

Natural disasters

Natural disasters or geopolitical events in a country where Kinepolis 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. Kinepolis strives to minimize the potential impact of such risks through a combination of preventive (such as construction decisions, evacuation planning) and detection measures (such as fire detection systems) and by subscribing to proper insurance.

Environmental liability and property risks

The property that Kinepolis Group owns and leases is subject to laws and regulations with regard to environmental liability and potential property risks. In addition to the above-mentioned measures to control political and regulatory risks, Kinepolis will take appropriate measures to prevent environmental damage and limit property risks.

Operating risks

Besides the above-mentioned business risks, Kinepolis Group can also be exposed to a number of operating risks.

A number of more specific risks and uncertainties relevant to the Kinepolis Group are briefly described below.

The Company wishes to state that with regard to the town planning permit for Kinepolis Ostend (Belgium), cancelled on 30 September 2008, Ostend municipality is working on a municipal town planning plan (GRUP) for the area in question, after which a new planning permit can be issued to regularize the existing situation of Kinepolis Ostend.

Finally, Kinepolis Group has taken note of the development and renovation of the Heyzel plateau planned by the City of Brussels (Belgium) and is very confident of a good outcome to the action initiated at the beginning of 2011 by Tentoonstellingspark van Brussel (TPB), the owner of Brussels Expo, to end the concession agreement that governs the presence of Kinepolis at the Heyzel site due to alleged non-compliance with this agreement.

Use of financial instruments

Kinepolis Group NV is exposed to a number of financial risks in its daily operations, such as interest risk, currency risk, credit risk and liquidity risk.

Derivative financial products concluded with third parties can be used to manage these financial risks. The use of derivative financial products is subject to strict internal controls and rules. It is Group policy not to undertake any trading positions in derivative financial instruments.

Kinepolis manages its debts by combining short-, medium- and long-term borrowings. The mix of debts with fixed and floating interest rates is established at Group level. At the end of December 2011 the Group's net financial debt was € 76.5 million. Kinepolis has concluded interest swap agreements to manage the risk associated with interest fluctuations. These interest hedges totalled € 57.5 million as at 31 December 2011.

The Notes to the Consolidated Financial Statements contain a more detailed description of how the Group manages the above-mentioned risks.

Compliance with the Corporate Governance Code

Kinepolis Group NV complies with the principles of the Belgian Corporate Governance 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 depart from the stipulations of the Code in a limited number of specific cases in addition to the circumstances described above:

- Contrary to Stipulation 5.5 of the Code, the Board of Directors believes that, bearing in mind its own limited composition, an Audit Committee comprising two independent members – both with the requisite auditing and accounting expertise – provides sufficient guarantees with regard to the appropriate and efficient functioning of the committee;
- Contrary to Stipulation 7.13., the Board of Directors approved the Share Option Plan 2007-2016 for the executive directors and members of the senior management on 5 November 2007. This plan serves, among other things, to more closely align the interests of the above mentioned persons with the interests of the Company and to enable the Company to offer a more competitive remuneration package and as such to be able to hire the right persons in these positions. Bearing in mind that the above objectives are in the best interest of the Company, the Board of Directors does not deem it necessary to submit this point to the General Meeting.
- Contrary to Stipulation 4.6. of the Code, the professional qualifications and duties of the directors to be re-appointed were not stipulated in the convening notices to the General Shareholders' Meeting of 20 May 2011, given that these qualifications are already published in several press releases and annual reports.

Other information

Research and development

Within the framework of the three strategic pillars, Kinepolis Group developed a number of new concepts for the operating entities to ensure optimal customer experience and a long-term profitability of the Group.

Conflict of interests policy

The Board of Directors took two decisions on 25 March 2011 pursuant to Article 523 of the Companies Code.

These decisions related to the following:

- The overall granting to Executive Management of the variable part of the remuneration to the amount of € 215 000 per person, bearing in mind the fulfillment in fiscal year 2010 of the quantitative and qualitative management targets, as well as the overall granting of an outperformance bonus of € 154 000 to BVBA Eddy Duquenne and € 77 000 to Mr Joost Bert, bearing in mind that the quantitative management targets were substantially exceeded;
- The establishment of the remuneration package for Executive Management for the fiscal years 2011-2012 as well as the establishment of the management targets for fiscal year 2011.

The relevant excerpt from the minutes is included in the report of the Board of Directors on the unconsolidated financial statements.

The Board of Directors took two decisions on 14 December 2011 pursuant to Article 523 of the Companies Code.

These decisions related to the following:

- The acquisition of Brightfish NV, a company wholly owned by Mr Joost Bert and Wikingerhof bvba, a company of which Mr Joost Bert was a shareholder;
- The granting of a golden handshake of € 200 000 to Pentascoop NV, whose permanent representative is Mrs M.S. Bert-Vereecke, on the occasion of the ending of the directorship of that company.

The relevant excerpt from the minutes was included in the report of the Board of Directors on the unconsolidated financial statements.

Profit appropriation and dividend payment

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

The payment of a gross amount of € 10 576 096 for fiscal 2011 to be divided among the shares entitled to dividend will be proposed, taking account of a payout ratio of 30% calculated on the current net profit. Subject to the approval of the General Shareholders' Meeting, the Board of Directors decided to make the dividend available to shareholders through a financial institution of their choice on 25 May 2012 (ex-date: 22 May 2012; record date: 24 May 2012) upon presentation of coupon No. 13.

Declaration with regard to the information contained in this annual report

Undersigned declare that to the best of their knowledge:

- The annual financial statements, prepared in accordance with the applicable standards for annual financial statements, provide a true and faithful picture of the equity, the financial situation and the results of Kinepolis and the companies included in the consolidation;
- The management report provides a true and faithful picture of the development and the position of Kinepolis and the companies included in the consolidation, as well as a description of the primary risks and uncertainties they face.

Eddy Duquenne
CEO

Joost Bert
CEO

04 Financial report

Consolidated income statement

at 31 December

IN '000 €	NOTE	2010	2011
Revenue	3	239 170	253 704
Cost of sales		-172 150	-174 065
Gross profit		**67 020**	**79 639**
Distribution expenses		-10 937	-14 925
Administrative expenses		-14 667	-14 849
Other operating income and expenses	4	3 769	3 476
Operating profit		**45 185**	**53 341**
Finance income	7	2 340	1 701
Finance expenses	7	-7 493	-4 870
Profit before tax		**40 032**	**50 172**
Income tax expense	8	-11 970	-13 701
Profit for the period		**28 062**	**36 471**
Attributable to:			
Owners of the Company		27 847	36 194
Non-controlling interests		215	277
Profit for the period		**28 062**	**36 471**
Basic earnings per share (€)	20	4.19	5.53
Diluted earnings per share (€)	20	4.14	5.44

Consolidated statement of comprehensive income

at 31 December

IN '000 €	NOTE	2010	2011
Profit for the period		**28 062**	**36 471**
Translation differences		810	-1 390
Net changes in the fair value of derivative financial instruments		1 593	-109
Other comprehensive income for the period		**2 403**	**-1 499**
Total comprehensive income for the period		**30 465**	**34 972**
Attributable to:			
Owners of the Company		30 250	34 695
Non-controlling interests		215	277
Total comprehensive income for the period		**30 465**	**34 972**

Consolidated balance sheet

at 31 December

Assets

IN '000 €	NOTE	2010	2011
Other intangible assets	9	3 386	3 367
Goodwill	10	18 761	18 761
Property, plant and equipment	11	227 446	221 231
Investment property	12	14 485	12 837
Deferred tax assets	13	1 548	1 551
Derivative financial instruments	25	5	
Other receivables	15	16 198	14 365
Other financial assets	17	27	27
Non-current assets		**281 856**	**272 139**
Assets classified as held for sale	18	8 138	6 721
Inventories	14	3 703	3 024
Trade and other receivables	15	19 623	27 375
Current tax assets		136	24
Cash and cash equivalents	16	12 584	17 670
Current assets		**44 184**	**54 814**
TOTAL ASSETS		**326 040**	**326 953**

Consolidated balance sheet
at 31 December

Equity and liabilities

IN '000 €	NOTE	2010	2011
Issued capital	19	48 963	18 952
Share premium	19	1 154	1 154
Consolidated reserve		106 292	114 040
Translation reserve		-629	-2 019
Total equity attributable to owners of the Company		**155 780**	**132 127**
Non-controlling interests	19	**1 538**	**1 815**
Equity		**157 318**	**133 942**
Loans and borrowings	22	57 437	38 502
Provisions	23	2 274	3 513
Deferred tax liabilities	13	13 918	14 319
Derivative financial instruments	25	1 018	856
Other payables	24	10 132	9 318
Non-current liabilities		**84 779**	**66 508**
Bank overdrafts	16	346	126
Loans and borrowings	22	22 017	55 894
Trade and other payables	24	55 548	63 331
Provisions	23	172	278
Derivative financial instruments	25	284	511
Current tax liabilities		5 576	6 363
Current liabilities		**83 943**	**126 503**
TOTAL EQUITY AND LIABILITIES		**326 040**	**326 953**

Consolidated statement of cash flows

at 31 December

IN '000 €	NOTE	2010	2011
Cash flows from operating activities			
Profit before tax		40 032	50 172
Adjustment for:			
Depreciation and amortization	6	22 949	19 954
Provisions and impairments	23	-138	1 267
Government grants	4	-811	-775
(Gains) Losses on sale of fixed assets	4	-2 315	-2 895
Change in fair value of derivative financial instruments and unrealized foreign exchange results		-1 059	-176
Discount of non-current receivables	7	-905	-837
Share-based payments	5	434	491
Write-down tax shelter investments	7	412	733
Translation differences realised due to liquidation Polish subsidiary	7	1 324	
Gain on a bargain purchase	4		-271
Interest expense and income	7	4 048	2 616
Change in inventory	14	-1 641	462
Change in trade and other receivables	15	4 000	-1 273
Change in trade and other payables	24	-8 652	4 502
Cash from operating activities		**57 678**	**73 970**
Income taxes paid		-10 385	-12 402
Net cash from operating activities		**47 293**	**61 568**

IN '000 €	NOTE	2010	2011
Cash flows from investing activities			
Acquisition of other intangible assets	9	-1 562	- 898
Acquisition of property, plant and equipment and investment property	11, 12	-12 695	-12 110
Acquisition of subsidiary, net of acquired cash			1 192
Proceeds from sale of property, plant and equipment		1 652	2 007
Net cash used in investing activities		**-12 605**	**-9 809**
Cash flows from financing activities			
Capital reduction			-28 693
New loans		9 954	79 072
Repayment of borrowings		-40 000	-64 130
Interest paid		-4 145	-2 675
Interest received		106	56
Repurchase of own shares			-21 645
Dividends paid		-6 121	-8 383
Settlement cross-currency interest rate swaps		-2 483	
Net cash used in financing activities		**-42 689**	**-46 398**
Net cash flow		**-8 001**	**5 361**
Cash and cash equivalents			
Cash and cash equivalents at beginning of the period	16	20 136	12 239
Cash and cash equivalents at end of the period	16	12 238	17 544
Effect of exchange rate fluctuations on cash held		103	-56
Net cash flow		**-8 001**	**5 361**

Consolidated statement of changes in equity

2011

IN '000 €	ISSUED CAPITAL	SHARE PREMIUM	TRANSLATION RESERVE	HEDGING RESERVE
At 31 December 2010	**48 963**	**1 154**	**-629**	**-1 210**
Profit for the period				
Translation differences			-1 390	
Net changes in the fair value of derivative financial instruments				-109
Other comprehensive income for the period			**-1 390**	**-109**
Total comprehensive income for the period			**-1 390**	**-109**
Capital reduction	-30 011			
Dividends				
Own shares acquired				
Cancellation of treasury shares				
Share-based payment transactions				
Total transactions with owners, recorded directly in equity	**-30 011**			
AT 31 DECEMBER 2011	**18 952**	**1 154**	**-2 019**	**-1 319**

2010

IN '000 €	ISSUED CAPITAL	SHARE PREMIUM	TRANSLATION RESERVE	HEDGING RESERVE
At 31 December 2009	**48 963**	**1 154**	**-1 439**	**-2 803**
Profit for the period				
Translation differences			810	
Net changes in the fair value of derivative financial instruments				1 593
Other comprehensive income for the period			**810**	**1 593**
Total comprehensive income for the period			**810**	**1 593**
Dividends				
Share-based payment transactions				
Total transactions with owners, recorded directly in equity				
AT 31 DECEMBER 2010	**48 963**	**1 154**	**-629**	**-1 210**

	FAIR VALUE RESERVE	RETAINED EARNINGS	TREASURY SHARES	SHARE-BASED PAYMENTS RESERVE	TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	0	112 949	-6 974	1 527	155 780	1 538	157 318
		36 194			36 194	277	36 471
					-1 390		-1 390
					-109		-109
					-1 499		-1 499
		36 194			34 695	277	34 972
		1 200			-28 811		-28 811
		-8 383			-8 383		-8 383
			-21 645		-21 645		-21 645
		-19 130	19 130				
				491	491		491
		-26 313	-2 515	491	-58 348		-58 348
	0	122 830	-9 489	2 018	132 127	1 815	133 942

	FAIR VALUE RESERVE	RETAINED EARNINGS	TREASURY SHARES	SHARE-BASED PAYMENTS RESERVE	TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	0	91 223	-6 974	1 093	131 217	1 323	132 540
		27 847			27 847	215	28 062
					810		810
					1 593		1 593
					2 403		2 403
		27 847			30 250	215	30 465
		-6 121			-6 121		-6 121
				434	434		434
		-6 121		434	-5 687		-5 687
	0	112 949	-6 974	1 527	155 780	1 538	157 318

Notes to the consolidated financial statements

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1. Significant accounting policies

Kinepolis Group NV (the ‘Company’) is a company established in Belgium. The consolidated financial statements of the Company for the year ending 31 December 2011 include the Company and its subsidiaries (together the ‘Group’) and the Group’s interest in equity accounted investees. These consolidated financial statements were approved by the Board of Directors for publication on 29 March 2012.

Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB) and adopted by the European Union on 31 December 2011. The Company has not applied any European exceptions to IFRS, which means that the financial statements fully comply with the IFRS standards.

Basis of preparation

The consolidated financial statements are presented in euros, rounded to the nearest thousand. They were drawn up on a historical cost basis, with the exception of the following assets and liabilities which are recorded at fair value: derivative financial instruments and financial assets available for sale.

Non-current assets held for sale are valued, in accordance with IFRS 5, at the lower of carrying value and fair value less costs to sell. Hedged assets and liabilities included in the balance sheet are valued at fair value in the amount of the hedged risk.

The accounting policies have been applied consistently across the Group and are consistent with those applied in the previous financial year.

In the income statement the financial income and cost of 2010 have been lowered by € 1.9 million to bring them into line with the notes for this period. This is a late correction of the foreign exchange gains and losses per currency, as presented in the notes to the financial statements for 2010, which was no longer recognized in the income statement. This reclassification does not affect the profit for the period 2010.

The presentation of the consolidated statement of cash flows has been changed compared to the previous financial year. The impairment on tax shelter investments is shown separately as an adjustment to the profit before tax. The changes in the working capital are itemized as change in inventory, change in trade and other receivables and change in trade and other payables.

The method used to calculate the segment revenue and inter-segment revenue has been refined. The comparative figures for 2010 have in each case been increased by € 2.6 million.

The future non-cancelable operating lease rentals and those included in the income statement are calculated differently as from 2011. The comparative figures for 2010 have been adjusted: the future operating lease rentals at the end of 2010 have been lowered by € 5.8 million and those included in the income statement in 2010 are € 1.3 million higher.

The preparation of the financial statements under IFRS requires management to make judgments, estimates and assumptions that influence the application of the policies and the reported amounts of assets and liabilities, income and expenses. The estimates and related assumptions are based on past experience and on various other factors that are considered reasonable in the given circumstances. The outcomes of these form the basis for the judgment as to the carrying value of assets and liabilities where this is not evident from other sources. Actual results can differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of estimates are recognized in the period in which the estimate is revised if the revision affects only this period, or in the revision period and future periods if the revision affects both the reporting period and future periods.

Estimates and assumptions are made, among other things, when:

- determining the useful life of intangible assets and property, plant and equipment, with the exception of goodwill;
- assessing the necessity of and estimating impairment losses on non-current assets;
- determining impairments on inventories;
- recording and calculating provisions;
- assessing the degree to which losses carried forward will be used in the future.

The estimates and assumptions with a significant probability of causing a material adjustment to the value of the assets and liabilities during the next financial year are stated below.

Recoverability of deferred tax assets

Deferred tax assets for unused tax losses will only be recognized if future taxable profits will be available to be able to recover these losses (based on budgets and forecasts). The actual tax result may differ from the assumption made when the deferred tax was recorded.

Goodwill impairment tests

The recoverable value of the cash flow generating units is defined as the realizable value of these units or their net present value, whichever is greater. These calculations require the use of estimates and assumptions with regard, among other things, to discount rates, exchange rates, future investments and expected operating efficiency.

Provisions

The estimates and judgments that most impact the amount of the provisions are the estimated costs and the expected likelihood and timing of the cash outflows. They are based on the most recent available information at the balance sheet date.

Other assumptions and estimates will be discussed in the respective notes where they are used.

Basis of consolidation

Subsidiaries

Subsidiaries are those entities over which the Company exercises control. Control is understood as meaning that the Company can, directly or indirectly, determine an entity's financial and operating policy. In determining whether a situation of control exists, potential voting rights that can be exercised at the time are taken into account.

The financial statements of subsidiaries are recognized in the consolidated financial statements from the date that control commences until the date that control ceases.

Losses realized by subsidiaries with non-controlling interests are proportionally allocated to the non-controlling interests in these subsidiaries, even if this means that the non-controlling interests display a negative balance.

If the Group no longer has control over a subsidiary all assets and liabilities of the subsidiary, any non-controlling interests and other equity components with regard to the subsidiary are derecognized and the ensuing gains or losses are recognized in the income statement. Each result with regard to the loss of control will be included in the income statement. Any remaining interest in the former subsidiary will be recognized at fair value on the date of loss of control, after which it will be recognized as an associated company or as a financial asset available for sale, depending on the level of control retained.

Equity accounted investees

Equity accounted investees are entities over which the Group exercises significant influence, but not control, over the financial and operational policies. Significant influence is deemed to exist where the Group holds between 20 and 50 per cent of the voting rights of another entity. The consolidated financial statements include the Group's share in the income and expenses of the participating interest, which is recorded following the equity method, from the starting to the ending date of this significant influence. Whenever the Group's share in the losses exceeds the carrying value of the investments in equity accounted investees, the carrying value is reduced to zero and future losses are no longer recognized, except to the extent that the Group has an obligation on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, along with any unrealized gains and losses on transactions within the Group or gains or losses from such transactions, are eliminated in the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated proportionally to the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only where there is no indication of impairment.

Foreign currency

Transactions in foreign currencies

Transactions in foreign currencies are translated to euro at the exchange rate on the transaction date. Monetary assets and liabilities expressed on the balance sheet date in foreign currencies are translated to euro at the exchange rate on the balance sheet date. Exchange rate differences occurring in the translation are immediately recognized in the income statement. Non-monetary assets and liabilities expressed in foreign currency are translated at the exchange rate on the transaction date. Non-monetary assets and liabilities in foreign currencies recognized at fair value are translated to euro at the exchange rates on the date on which the fair value was determined. If the settlement of monetary receivables from and payables to foreign entities is neither planned nor likely in the foreseeable future, exchange rate gains and losses on these monetary items are deemed to be part of the net investment in these foreign entities and recognized in the other comprehensive income under the translation differences.

Financial statements in foreign currencies

Assets and liabilities relating to foreign operations, including goodwill and fair value adjustments on acquisition, are translated to euro at the exchange rate on the balance sheet date. Income and costs of foreign entities are translated to euro at exchange rates approaching the exchange rates prevailing on the transaction dates.

The exchange rate differences arising from the translation are recognized immediately in equity.

Financial instruments

All financial instruments are recorded on the transaction date.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables.

Non-derivative financial instruments are initially recognized at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. After initial recognition, non-derivative financial instruments are valued as described below.

Cash and cash equivalents

Cash and cash equivalents comprise the cash and deposits withdrawable on demand with an original term of no more than three months. Bank overdrafts that are repayable on demand, which are an integral part of the Group's cash management are viewed as part of cash and cash equivalents in the presentation of the cash flow table.

Financial assets available for sale - Investments in equity securities

Investments in equity securities consist of participating interests in enterprises in which the Group has no control or no significant influence.

In those cases in which the Group directly or indirectly holds over 20% of the votes and/or exercises significant influence on the financial and operating policy, the participating interests are viewed as equity accounted investees. Participating interests in equity accounted investees are recorded by the equity method, except when classified as financial assets held for sale in accordance with IFRS 5 (Non-current assets held for sale and discontinued operations). When there is reason to apply an impairment, the accounting policy for impairments is applied.

Other investments in equity securities are classified as financial assets available for sale and recorded at fair value on initial recognition, except for equity securities not listed on an active market and for which the fair value cannot reliably be determined. Participating interests not eligible for valuation at fair value are recorded at historical cost. Profits and losses resulting from the change in fair value of a participating interest classified as a financial asset available for sale and which is not hedged are taken directly into equity. When the investment is sold, received or otherwise transferred, or when the carrying value of the investment is impaired, the accumulated profit or loss previously included in equity is transferred to profit or loss.

The fair value of financial assets available for sale is their listed bid price on the balance sheet date.

Other non-derivative financial instruments

Other non-derivative financial instruments are measured at amortized cost price using the effective interest rate method less any impairment losses.

Share capital

Ordinary shares are classified as equity. Additional costs which are directly attributable to the issue of ordinary shares and share options are deducted from equity, after deducting any tax effects.

Treasury shares: When share capital classified as equity is reacquired by the Company, the amount paid, including directly attributed costs, is viewed as a change in equity. Purchase of treasury shares is recognized as a deduction from equity.

Dividends are recognized as amounts payable in the period in which they are declared.

Derivative financial instruments

The Group uses derivative financial instruments to manage the exchange rate and interest risks deriving from operational, financial and investment activities. Under its treasury management policy the Group does not use derivative financial instruments for trading purposes. Derivative financial instruments that do not meet the requirements of hedge accounting are, however, accounted for in the same way as derivatives held for trading purposes.

Derivative financial instruments are initially valued at fair value. Attributable transaction costs are expensed in the profit and loss as incurred. Subsequent to initial recognition these instruments are measured at fair value. The accounting treatment of the resulting profits or losses depends on the nature of the derivative financial instrument.

The fair value of derivative financial instruments is the estimated amount that the Group will obtain or pay on the balance sheet date at the end of the contract in question, with reference to present interest and exchange rates and the creditworthiness of the counterparty.

Hedging

Cash flow hedges

Whenever derivative financial instruments serve to hedge the variability in cash flows of a liability or a highly probable future transaction, the effective portion of the changes in fair value of these derivatives is recorded directly in equity. When the future transaction results in the recording of a non-financial asset, the cumulative profits or losses are removed from equity and transferred to the carrying amount of the asset. In the other case the cumulative profits or losses are removed from equity and transferred to the income statement at the same time as the hedged transaction. The non-effective portion is included immediately in the income statement. Profits or losses deriving from changes in the time value of derivatives are not taken into consideration in determining the effectiveness of the hedging transaction and are recognized immediately in the income statement.

Whenever a hedging instrument or hedge relationship is ended, but the hedged transaction still has not taken place, the cumulative gains or losses remain in equity and will be recognized in accordance with the above policies once the transaction takes place. When the covered transaction is no longer probable, the cumulative gains or losses included in equity are immediately taken into the income statement.

Fair value hedges

Hedge accounting is not applied to derivative instruments which are used for fair value hedging of foreign currency denominated monetary assets and liabilities. Changes in the fair value of such derivatives are recognized in the income statement as part of the foreign exchange gains and losses.

Property, plant and equipment

Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairments (see below). The cost of self-constructed assets includes the cost price of the materials, direct personnel expenses and a proportionate share of the production overhead, any costs of dismantling and removal of the asset and the costs of restoring the location where the asset is located. Where parts of an item of property, plant and equipment have different useful lives, these are accounted for as separate plant, property and equipment items.

Gains and losses on the sale of property, plant and equipment are determined by comparing the sales proceeds with the carrying value of the assets and are recognized within 'other operating income' in the income statement.

Leased assets

Leases that transfer to the Group nearly all the risks and rewards attached to the ownership of an asset are viewed as finance leases. Buildings and equipment acquired under finance leases are recorded at the lower of the fair value or the present value of the minimum lease payments at the beginning of the lease agreement, less cumulative depreciation and impairments.

Subsequent expenditure

The cost price of replacing part of a property, plant and equipment is included in the carrying value of the asset whenever it is probable that the future economic benefits relating to the assets will flow to the Group and the cost price of the assets can be measured reliably. The cost of daily maintenance of property, plant and equipment is expensed in profit or loss as and when incurred.

Depreciation

Depreciation is charged to the income statement using the straight-line method over the expected useful life of the asset, or of the separately recorded major components of an asset. The residual value, useful lives and depreciation methods are reviewed annually. Land is not depreciated.

The estimated useful lives are:

- Buildings: 30 years
- Fixtures: 5 – 15 years
- Computers: 3 years
- Plant, machinery and equipment: 5 – 10 years
- Furniture and vehicles: 3 – 10 years

Investment property

Investment property is property that is held in order to earn rental income or for capital appreciation or both, but is not intended for sale in the context of usual business operations, for use in the production or delivery of goods or for administrative purposes.

Investment property is measured at cost, less cumulative depreciation and impairments. The accounting policies given under 'Property, plant and equipment' apply.

Rental income from investment property is accounted for as described below in the accounting policy for 'Revenue and other income'.

Intangible assets

Goodwill

Goodwill from an acquisition is the positive difference between the fair value of the consideration transferred plus the carrying value of any non-controlling interest in the enterprise, or the share in the equity of the acquired enterprise if the acquisition occurs in phases, on the one hand, and the Group's share in the fair value of the acquired identifiable assets and liabilities, on the other. If this difference is negative, it is immediately recognized in the income statement.

Costs incurred within the framework of an acquisition that are not connected to the issue of debts or shares are recognized in the income statement.

Any contingent consideration is recognized at fair value on the acquisition date. If the contingent consideration is classified as equity it must not be remeasured. The settlement is also part of equity. If the contingent consideration is part of the liabilities, the later adjustments to the fair value of the contingent consideration are recognized in the income statement.

Up to and including 2009 goodwill was determined as the difference between the purchase price and the Group's share in the fair value of the acquired identifiable net assets.

Goodwill is valued at cost less impairment losses. In respect of equity accounted investees the carrying value of the investment in the enterprise also includes the carrying value of the goodwill. Goodwill is not amortized. Instead, it is subject to an annual impairment test.

Acquisition of non-controlling interests

The acquisition of non-controlling interests in a subsidiary does not lead to the recognition of goodwill, because this is deemed to be a share transaction and is recognized directly in equity. The non-controlling interests are adjusted on the basis of the proportional part in the equity of the subsidiary.

Other intangible assets

Other intangible assets acquired by the Group are valued at cost less accumulated amortization and impairment losses (see below). Costs of internally generated goodwill and brands are recognized in the income statement as incurred.

Internally developed software

Internally developed software is capitalized whenever the development costs can be reliably determined, the product or process is technically and commercially feasible, the future economic benefits are probable, and the Group intends and has sufficient resources to complete the development and to actively use or sell it. The cost of internally developed software includes all costs directly attributable to the asset.

Other development costs are expensed to the income statement as and when incurred.

Subsequent expenditure

Subsequent expenditure in respect of intangible assets is capitalized only when it increases the future economic benefits specific to the related asset. All other expenditure is expensed as incurred.

Amortization

Amortization is charged to the income statement by the straight-line method over the expected useful life of the intangible asset.

Intangible assets are amortized from the date they are ready for use. Their estimated useful life is 3 to 10 years.

Inventories

Inventories are valued at the lower of cost or net realizable value. The net realizable value is equal to the estimated sale price, less the estimated costs of completion and selling expenses.

The cost price of inventories includes the costs incurred in acquiring the inventories and bringing them to their current location and condition. Inventories are measured using the FIFO method.

Impairment losses

The carrying values of the Group's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Where there is an indication of impairment, the recoverable amount of the asset is estimated. In the case of goodwill and intangible assets with an undetermined useful life or which are not yet available for use, the recoverable amount is estimated at every balance sheet date. An impairment loss is recorded whenever the carrying value of an asset, or the cash flow generating unit to which the asset belongs, is higher than the recoverable amount. Impairment losses recorded in respect of cash flow generating units are first deducted from the carrying value of any goodwill assigned to cash flow generating units (or groups of units) and then proportionally from the carrying value of the assets of the unit (or group of units). Impairment losses are charged to the income statement. A cumulative loss on a financial asset available for sale previously recognized in equity is transferred to the income statement.

Calculation of the recoverable amount
Individually significant financial assets are tested individually for impairment. The remaining financial assets are divided into groups having similar credit risk features and are assessed collectively.

The recoverable amount of the Group's financial assets measured at amortized cost is calculated as the present value of expected future cash flows at the interest rate inherent to these assets. Current receivables are not discounted.

The recoverable value of other assets is the greater of the sales price less selling expenses and the value in use.

To assess the value in use, the expected future cash flows are discounted to their present value, using a weighted average cost of capital that reflects both the current market rate and the risks specific to that asset. Where an asset does not itself generate significant cash flows, the recoverable value is determined based on the cash flow generating unit to which the asset belongs.

Reversal of impairments
An impairment is reversed when the reversal can be objectively linked to an event occurring after the impairment was recorded. A previously recorded impairment is reversed where a change has occurred in the estimates used in determining the realizable value, but not in a higher amount than the net carrying value that would have been determined if no impairment had been recorded in previous years.

Goodwill impairments are not reversed.

In the case of financial assets that are measured at amortized cost and financial assets available for sale in the form of bonds, the reversal is against the income statement. In the case of available-for-sale financial assets that are equity securities, the reversal is taken directly to equity.

Assets classified as held for sale

Non-current assets (or groups of assets and liabilities being disposed of) that are expected to be recovered mainly via a sales transaction and not through the continuing use thereof are classified as "held for sale". Directly prior to this classification the assets (or the components of a group of assets being disposed of) are remeasured in accordance with the Group's financial accounting policies. Hereafter the assets (or a group of assets to be disposed of) are measured on the basis of their carrying value or, if lower, fair value less cost to sell. Any impairment loss on a disposal group is allocated in the first place against goodwill and then, proportionally, against the remaining assets and liabilities, except that no impairments are allocated against inventories, financial assets, deferred tax assets, employee-benefit assets and investment property, which will continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification and gains and losses on subsequent measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Employee benefits

Post employment benefits
Post employment benefits include the pension plans. The Group provides post-retirement remuneration for the majority of its employees in the form of 'defined contribution' pension plans via an independent fund or pension schemes.

Defined contribution plans
The contribution paid for defined contribution plans is immediately recognized in the income statement.

Share based payments and related benefits
The warrant plan enables Group employees to acquire shares of the Company. The warrant exercise price is equal to the market price of the underlying shares on the date of offer and no compensation cost or liability is recorded.

Share transactions with employees are charged to the income statement over the vesting period based on the fair value on the date of offering with a corresponding increase in equity. The fair value is determined using an option price definition model.

Provisions

A provision is recorded in the balance sheet whenever the Group has an existing obligation (legal or constructive) as a result of a past event and where it is probable that the settlement of this obligation will result in an outflow from the company of resources containing economic benefits. Where the effect is material, provisions are measured by discounting the expected future cash flows at a pre-tax discount rate that reflects both the current market assessment of the time value of money and, where applicable, the risks inherent to the obligation.

Restructuring

A provision for restructuring is set up whenever the Group has approved a detailed, formal restructuring plan and the restructuring has either been commenced or publicly announced. No provisions are recognized for future operating costs.

Site restoration

In accordance with the Group's contractual obligations a provision for site restoration is set up whenever the Group is obliged to restore land to its original condition.

Onerous contracts

A provision for onerous contracts is set up whenever the economic benefits expected from a contract are lower than the unavoidable costs of meeting the contract obligations.

Revenue

Sales of goods and services

On the sale of goods the income is recognized in the income statement upon transfer to the purchaser of the essential risks and rewards. Where services are provided the income is recognized in the income statement upon delivery of this service. Income is not recorded where significant uncertainty exists as to the collection of the receivable, related costs and the possible return of the goods.

Rental income

Rental income is taken into account on a straight-line basis over the rental period. Lease incentives granted are regarded as an integral part of rental income.

Government grants

Government grants are initially regarded as accrued income in the balance sheet whenever reasonable certainty exists that they will be received and that the Group will fulfill the associated conditions. Grants that compensate incurred costs are systematically taken into profit in the same period as the costs are incurred. Grants that compensate costs incurred in respect of assets are systematically taken into income over the useful life of the assets.

Expenses

Payments relating to operating lease agreements

Payments relating to operating lease agreements are taken into profit or loss on a straight-line basis over the lease period.

Payments relating to finance lease agreements

The minimum lease payments are recorded partly as finance expenses and partly as repayment of the outstanding liability. Finance expenses are allocated to each period of the total lease period in such a way as to give a constant periodical interest rate over the remaining balance of the liability.

Finance income and cost

Finance income and cost consist of interest payable on loans and borrowings, interest income on funds invested, dividends, foreign exchange gains and losses and changes in fair value on hedging instruments recognized in profit or loss. Exchange rate gains and losses are compensated per currency.

Rental income is taken into profit or loss pro rata temporis. Dividend income is included in the income statement on the date that the dividend is declared.

The rent component of payments on finance leases is taken into profit or loss.

Finance expenses directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the cost of that asset.

Income taxes

Income tax expenses consist of current and deferred tax. Taxes are recorded in profit or loss except where they relate to elements recorded directly in equity. In this case the taxes are recognized directly in equity.

Current income taxes consist of the expected tax payable on the taxable profit of the year, calculated according to the tax rates in effect at the balance sheet date, as well as tax adjustments in respect of prior years.

Deferred taxes are recorded based on the balance sheet method, for all temporary differences between the taxable base and the carrying value for financial reporting purposes, for both assets and liabilities. No deferred taxes are recorded for the following temporary differences: initial recording of goodwill, initial recording of assets and liabilities in a transaction that is not a business combination and that do not affect the accounting or taxable profits and differences relating to investments in subsidiaries to the extent that an offsetting entry is unlikely in the near future. The amount of the deferred tax is based on expectations as to the realization of the carrying value of the assets and liabilities, using the tax rates in effect or those of which the enactment has been substantively completed at the balance sheet date.

A deferred tax asset is recorded in the balance sheet only when it is probable that adequate future taxable profits are available against which temporary differences can be utilized. Deferred tax assets are reduced whenever it is no longer probable that the related tax benefit will be realized.

Additional income tax resulting from the declaring of dividends is recorded simultaneously with the liability to pay the dividend in question.

Segment reporting

An operating segment is a clearly distinguishable component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses in relation to transactions with any of the Group's other components. The Group is organized geographically. The different countries constitute operating segments, in accordance with the internal reporting to the CEOs of the Group.

Discontinued operations

Classification as discontinued operations occurs upon the disposal of or, if earlier, when the business activity fulfills the criteria for classification as held for sale. Subsequently non-current assets and disposal groups, when first recorded as held for sale, are measured at the lower of carrying value and fair value less cost to sell. Whenever an activity is classified as a discontinued operation, the comparative income statement figures are restated as if the activity had been discontinued from the start of the comparative period.

Capital management

Board policy is aimed at maintaining a strong capital position in order to retain the confidence of investors, lenders and markets and to safeguard the future development of the business activities. The Board of Directors monitors the return on equity, which is defined by the Group as the net operating result divided by equity, excluding non-controlling interests. The Board of Directors also monitors the level of the dividend payable to the shareholders.

The Board seeks a balance between the higher return that is potentially available with a higher level of borrowing, and the benefits and security of a solid equity position. In seeking this balance, the Board of Directors' objective is to achieve the pre-defined level of the net financial debt to EBITDA and net financial debt to equity ratios.

Up to 2009 shares were bought back by means of a share buy-back program through a financial institution operating under a discretionary mandate. These shares are intended for coverage of the Group's current share option scheme. Buy and sell decisions are taken on an individual basis by the Board of Directors.

The Board of Directors believed that the ratios of net financial debt to equity and net financial debt to EBITDA were at risk of dropping below the pre-defined level from mid 2010 and therefore proposed to the General Meeting the reduction of issued capital and the purchase of shares of the Company to improve the ratios and thus create shareholder value. After approval by the Extraordinary General Meeting of 20 May 2011, the capital was reduced by € 30.0 million and 395 502 shares were bought back in 2011: 34 654 to cover new options and the remainder for destruction. 349 423 shares were already destroyed in 2011. In accordance with the authorization of the Board of Directors by the Extraordinary General Meeting of 20 May 2011, up to 713 422 additional shares may additionally be bought back for destruction.

New standards and interpretations not yet adopted

A number of new standards, amendments and interpretations were not yet effective in 2011 and are therefore not applied to the present consolidated financial statements.

- IFRS 9 Financial Instruments is the first standard issued as part of a wider project to replace IAS 39 Financial Instruments. The new standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the characteristics of the contractual cash flows of the financial asset. The requirements with regard to the classification and measurement of financial liabilities will also be adjusted. IFRS 9 must be applied retroactively to the consolidated financial statements of the Group for 2015. The consequences of this standard for the Group are currently being assessed.

- The amendments to IAS 1 with regard to Presenting Comprehensive Income require a distinction to be made between the comprehensive income that will be recognized in the income statement and comprehensive income that never will be recognized in the income statement. Furthermore, the choice of presenting results of operations in two statements can no longer be modified. These amendments to IAS 1 will apply as of 1 July 2012 and will have limited consequences for the Group.

2. Segment reporting

Segment information is given for the Group's geographic segments. The geographic segments reflect the countries in which the Group operates. Prices for inter-segment transactions are determined at arm's length.

Segment results, assets and liabilities of a particular segment include those items that can be attributed, either directly or reasonably, to that segment.

Financial income and cost, income tax expense and their related assets and liabilities are not monitored by segment by the Group's CEOs and CFO.

The investments of a segment are all costs incurred during the reporting period to acquire assets that are expected to remain in use in the segment for longer than one reporting period.

Geographic segments

The Group's activities are managed and followed up on a country basis. The main geographic markets are Belgium, France and Spain. The Polish and Swiss activities are combined in the 'other' geographic segment, in accordance with the internal reporting to the Group's CEOs and CFO.

In presenting information on the basis of geographic segments, revenue from the segment is based on the geographic location of the customers. The basis used for the assets of the segments is the geographic location of the assets.

Segment reporting
at 31 December

Income statement

IN '000 €	BELGIUM		FRANCE		SPAIN	
	2010	2011	2010	2011	2010	2011
Segment revenue	137 109	151 177	64 123	65 651	42 174	40 635
Inter-segment revenue	-8 817	-8 508				
Revenue	128 292	142 669	64 123	65 651	42 174	40 635
Cost of sales	-91 888	-95 535	-45 345	-45 242	-31 495	-30 235
Gross profit	**36 404**	**47 134**	**18 778**	**20 409**	**10 679**	**10 400**
Distribution expenses	-8 570	-11 817	-1 111	-1 645	-1 100	-1 282
Administrative expenses	-11 549	-12 123	-1 652	-1 512	-1 191	-901
Other operating income and expenses	1 900	2 610	813	775	292	91
Segment profit	**18 185**	**25 804**	**16 828**	**18 027**	**8 680**	**8 308**
Finance income						
Finance cost						
Profit before tax						
Income tax expense						
PROFIT FOR THE PERIOD						

Statement of financial position - Assets

IN '000 €	BELGIUM		FRANCE		SPAIN	
	2010	2011	2010	2011	2010	2011
Other intangible assets	2 776	2 770	366	367	244	230
Goodwill	7 282	7 281	2 603	2 604	2 374	2 374
Property, plant and equipment	102 154	98 790	72 758	69 230	46 129	46 712
Investment property						
Deferred tax assets						
Derivative financial instruments						
Other receivables	19	155	14 996	14 022	172	188
Other financial assets						
Non-current assets	**112 231**	**108 996**	**90 723**	**86 223**	**48 919**	**49 504**
Assets classified as held for sale						
Inventories	1 669	1 362	1 521	1 283	380	266
Trade and other receivables	11 498	17 304	5 244	5 535	665	1 065
Current tax assets						
Cash and cash equivalents						
Current assets	**13 167**	**18 666**	**6 765**	**6 818**	**1 045**	**1 331**
TOTAL ASSETS	**125 398**	**127 662**	**97 488**	**93 041**	**49 964**	**50 835**

OTHER (PL + SWI)		NOT ALLOCATED		TOTAL		IN '000 €
2010	2011	2010	2011	2010	2011	
4 581	4 749			247 987	262 212	Segment revenue
				-8 817	-8 508	Inter-segment revenue
4 581	4 749			239 170	253 704	Revenue
-3 422	-3 053			-172 150	-174 065	Cost of sales
1 159	**1 696**			**67 020**	**79 639**	**Gross profit**
-156	-181			-10 937	-14 925	Distribution expenses
-275	-313			-14 667	-14 849	Administrative expenses
764				3 769	3 476	Other operating income and expenses
1 492	**1 202**			**45 185**	**53 341**	**Segment profit**
		4 287	1 701	4 287	1 701	Finance income
		-9 440	-4 870	-9 440	-4 870	Finance cost
				40 032	**50 172**	**Profit before tax**
		-11 970	-13 701	-11 970	-13 701	Income tax expense
				28 062	**36 471**	**PROFIT FOR THE PERIOD**

OTHER (PL + SWI)		NOT ALLOCATED		TOTAL		IN '000 €
2010	2011	2010	2011	2010	2011	
				3 386	3 367	Other intangible assets
6 502	6 502			18 761	18 761	Goodwill
6 405	6 499			227 446	221 231	Property, plant and equipment
14 485	12 837			14 485	12 837	Investment property
		1 548	1 551	1 548	1 551	Deferred tax assets
		5		5		Derivative financial instruments
1 011				16 198	14 365	Other receivables
		27	27	27	27	Other financial assets
28 403	**25 838**	**1 580**	**1 578**	**281 856**	**272 139**	**Non-current assets**
		8 138	6 721	8 138	6 721	Assets classified as held for sale
133	113			3 703	3 024	Inventories
342	1 296	1 874	2 175	19 623	27 375	Trade and other receivables
		136	24	136	24	Current tax assets
		12 584	17 670	12 584	17 670	Cash and cash equivalents
475	**1 409**	**22 732**	**26 590**	**44 184**	**54 814**	**Current assets**
28 878	**27 247**	**24 312**	**28 168**	**326 040**	**326 953**	**TOTAL ASSETS**

Segment reporting
at 31 December

Statement of financial position - Equity and liabilities

IN '000 €	BELGIUM		FRANCE		SPAIN	
	2010	2011	2010	2011	2010	2011
Issued capital and share premium						
Consolidated reserve						
Translation reserve						
Total equity attributable to owners of the Company						
Non-controlling interests						
Equity						
Loans and borrowings						
Provisions	2 124	3 106	150	407		
Deferred tax liabilities						
Derivative financial instruments						
Other payables	3		10 129	9 318		
Non-current liabilities	**2 127**	**3 106**	**10 279**	**9 725**		
Bank overdrafts						
Loans and borrowings						
Trade and other payables	32 895	36 969	13 463	15 740	4 934	4 979
Provisions			172	278		
Derivative financial instruments						
Current tax liabilities						
Current liabilities	**32 895**	**36 969**	**13 635**	**16 018**	**4 934**	**4 979**
TOTAL EQUITY AND LIABILITIES	**35 022**	**40 075**	**23 914**	**25 743**	**4 934**	**4 979**

Investments

IN '000 €	BELGIUM		FRANCE		SPAIN	
	2010	2011	2010	2011	2010	2011
Investments	**7 118**	**7 957**	**4 508**	**1 961**	**2 341**	**3 016**

Non-cash elements

IN '000 €	BELGIUM		FRANCE		SPAIN	
	2010	2011	2010	2011	2010	2011
Depreciation, amortization, provisions and impairments	11 981	12 460	7 155	5 806	3 360	2 478
Other	403	403		74	31	14
TOTAL	**12 384**	**12 863**	**7 155**	**5 880**	**3 391**	**2 492**

OTHER (PL + SWI)		NOT ALLOCATED		TOTAL		IN '000 €
2010	2011	2010	2011	2010	2011	
		50 117	20 106	50 117	20 106	Issued capital and share premium
		106 292	114 040	106 292	114 040	Consolidated reserve
		-629	-2 019	-629	-2 019	Translation reserve
		155 780	**132 127**	**155 780**	**132 127**	**Total equity attributable to owners of the Company**
		1 538	**1 815**	**1 538**	**1 815**	**Non-controlling interests**
		157 318	**133 942**	**157 318**	**133 942**	**Equity**
		57 437	38 502	57 437	38 502	Loans and borrowings
				2 274	3 513	Provisions
		13 918	14 319	13 918	14 319	Deferred tax liabilities
		1 018	856	1 018	856	Derivative financial instruments
				10 132	9 318	Other payables
		72 373	**53 677**	**84 779**	**66 508**	**Non-current liabilities**
		346	126	346	126	Bank overdrafts
		22 017	55 894	22 017	55 894	Loans and borrowings
589	555	3 667	5 088	55 548	63 331	Trade and other payables
				172	278	Provisions
		284	511	284	511	Derivative financial instruments
		5 576	6 363	5 576	6 363	Current tax liabilities
589	**555**	**31 890**	**67 982**	**83 943**	**126 503**	**Current liabilities**
589	**555**	**261 581**	**255 601**	**326 040**	**326 953**	**TOTAL EQUITY AND LIABILITIES**

OTHER (PL + SWI)		NOT ALLOCATED		TOTAL		IN '000 €
2010	2011	2010	2011	2010	2011	
290	**74**			**14 257**	**13 008**	**Investments**

OTHER (PL + SWI)		NOT ALLOCATED		TOTAL		IN '000 €
2010	2011	2010	2011	2010	2011	
315	477			22 811	21 221	Depreciation, amortization, provisions and impairments
				434	491	Other
315	**477**			**23 245**	**21 712**	**TOTAL**

3. Revenue

The table below shows the breakdown of revenue by activity, product or service offered by the Group:

IN '000 €	2010	2011
Box office	145 472	149 134
In-theatre sales	50 536	53 071
Business-to-business	31 107	40 184
Film distribution	3 097	2 275
Real estate	8 604	8 687
Technical department	354	353
TOTAL	**239 170**	**253 704**

Revenue includes exchange deals worth € 8.9 million (2010: € 5.3 million).

4. Other operating income/(expenses)

IN '000 €	2010	2011
Government grants	811	775
Capital gain on disposal of property, plant and equipment	2 315	2 943
Gain on bargain purchase Brightfish NV		271
Reversal provision liquidated Polish company	692	
Loss on sale of property, plant and equipment		-95
Other	-49	-418
TOTAL	**3 769**	**3 476**

Government grants

The Group receives government grants in France from the Centre national du cinéma et de l'image animée (CNC) for cinema related investments. These grants come from a fund financed by contributions from cinema operators in the form of a percentage of ticket sales. The grants are recorded as liabilities and taken into income over the useful life of the assets in question.

Capital gain on disposal of property, plant and equipment

The Group made a capital gain of € 2.9 million in 2011 in connection with the second and third phase of a residential new-build project in Ghent. The first part of this project was delivered in 2010 and recognized in the income statement at € 1.4 million. The Group also made a capital gain of € 0.9 million on the sale of a property project in Ghent to Brummo in 2010.

Loss on sale of propety, plant and equipment

In September 2011 the Group sold the former cinema 'Opéra' in Liège (closed in 2004) to ULG (Liège university). A loss of € -0.1 million was incurred on this sale.

Other

A € 0.5 million Group transformation provision was set up in 2011.

5. Personnel expenses

IN '000 €	2010	2011
Wages and salaries	-27 602	-28 562
Social security contributions	-7 826	-8 256
Pension plan contributions (defined contribution)	-214	-310
Share-based payments	-434	-491
Other personnel expenses	-2 330	-2 068
TOTAL	**-38 406**	**-39 687**
Total full-time equivalents at balance sheet date	939	928

6. Additional information on operating expenses by nature

Personnel expenses are charged to profit or loss in the following lines of the income statement:

IN '000 €	2010	2011
Cost of sales	-29 390	-29 731
Distribution expenses	-2 927	-3 202
Administrative expenses	-6 089	-6 754
TOTAL	**-38 406**	**-39 687**

Depreciation and amortization are charged to profit or loss in the following lines of the income statement:

IN '000 €	2010	2011
Cost of sales	-21 670	-18 811
Distribution expenses	-291	-249
Administrative expenses	-664	-894
Other operating income / expenses	-324	
TOTAL	**-22 949**	**-19 954**

7. Finance income and expenses

Finance income

IN '000 €	2010	2011
Interest income	106	199
Foreign exchange gains	821	171
Recognition of fair value of derivative financial instruments ended in the past	30	39
Discount of long-term government grants receivable	905	877
Other	478	415
TOTAL	**2 340**	**1 701**

In 2010 the foreign exchange gains included the changes in the fair value of the cross-currency interest rate swaps (CCIRS), up to and including the settlement of these contracts at the end of December 2010, for € -1.1 million.

The use of derivative financial instruments for hedging of interest and exchange rate risks is discussed further in note 25.

Finance expenses

IN '000 €	2010	2011
Interest charges	-4 154	-2 688
Foreign exchange losses	-20	-50
Impairments tax shelter investments	-412	-733
Other	-2 907	-1 399
TOTAL	**-7 493**	**-4 870**

The fair value of the interest rate swaps transferred from equity to the income statement (interest charges) was € -0.9 million (2010: € -2.5 million).

The other financial costs in 2011 mainly included banking costs. In 2010 these also included the realization of translation differences, which were previously recognized in the Group's equity, pursuant to the liquidation of a non-active Polish subsidiary for € -1.3 million.

8. Income tax expense

IN '000 €	2010	2011
Current tax expenses	-12 764	-13 301
Deferred tax	794	-400
TOTAL	**-11 970**	**-13 701**

Effective tax rate reconciliation

IN '000 €	2010	2011
Profit before tax	40 032	50 172
Belgian tax rate	**33.99 %**	**33.99 %**
Income tax using the Company's domestic tax rate	-13 607	-17 053
Effect of tax rates in foreign jurisdictions	487	466
Non-deductible expenses	-685	-785
Tax-exempt income	3 102	2 508
Unrecognized losses	1 141	1 627
Under/(over) provided in prior periods	-410	-322
Other adjustments	-1 998	-142
TOTAL	**-11 970**	**-13 701**
Effective tax rate	**29.90 %**	**27.31 %**

The actual tax rate was 27.31 % in 2011 (2010: 29.90 %). The notional interest deduction and the tax treatment of tax shelters, both included in 'Tax-exempt income', had a positive impact on the tax burden in both 2010 and 2011.

Other adjustments in 2010 were primarily the loss incurred on the liquidation of a Polish subsidiary.

Deferred income tax recognized directly to equity

No deferred tax profit was directly recognized in equity.

9. Other intangible assets

IN '000 €	PATENTS AND LICENSES	OTHER	INTERNALLY DEVELOPED INTANGIBLE ASSETS	TOTAL
Acquisition value	1 725	5 899	1 538	9 162
Amortization and impairment losses	-1 077	-4 586	-605	-6 268
NET CARRYING VALUE AT 31/12/2009	**648**	**1 313**	**933**	**2 894**
Acquisitions	248	1 050	264	1 562
Transfer from / to other categories	-3	-276		-279
Amortization	-119	-334	-338	-791
Acquisition value	1 725	4 148	1 802	7 675
Amortization and impairment losses	-951	-2 395	-943	-4 289
NET CARRYING VALUE AT 31/12/2010	**774**	**1 753**	**859**	**3 386**
Acquisitions	19	590	289	898
Acquisitions through business combinations	89			89
Transfer from / to other categories	-2	2		
Amortization	-137	-505	-364	-1 006
Acquisition value	1 773	4 773	2 091	8 637
Amortization and impairment losses	-1 030	-2 933	-1 307	-5 270
NET CARRYING VALUE AT 31/12/2011	**743**	**1 840**	**784**	**3 367**

The other intangible assets are primarily software and the development of a direct marketing and pricing methodology. The internally developed intangible assets comprise the in-house ticketing software system.

Transfer to other categories in 2010 primarily concerns the tax shelter investments that have been part of other receivables as from 2010 (note 15).

10. Goodwill and business combinations

Goodwill

IN '000 €	2010	2011
BALANCE AT END OF PREVIOUS PERIOD	**18 761**	**18 761**
Acquisitions through business combinations		
Impairment losses		
Disposals		
BALANCE AT END OF CURRENT PERIOD	**18 761**	**18 761**

At the end of 2011, as every year in this period, a review was performed to identify any impairment indications. During this review the Group considered, among other things, the evolution of visitor figures, EBITDA and the components that make up the weighted average cost of capital determined by the Group, especially the risk-free interest rate, the market risk premium and the cost of debt. No impairment indicators were identified.

An annual impairment test must be performed for cash generating units to which goodwill is allocated, regardless of whether there are any indications of impairment. The most recent impairment test of mid 2011 was used for this, given that all conditions were fulfilled: large surpluses were identified and the underlying assumptions are still current, except for Poland, for which the underlying assumptions have only become more favourable. Consequently, no impairments have been recognized.

The impairment test was as always performed at country level, the operational segments of the Group. The CEOs, CFO and Country Managers direct the Group primarily at country level. The cash flows of the Group are generated per country:

- Programming of films and negotiations with distributors occur at country level.
- A large percentage of tickets are sold through the websites, which are organized at country level.
- The pricing of tickets, refreshments and snacks is set at country level.
- Marketing contributions by distributors are on a country basis.
- Screen advertising is managed on a country by country basis.
- Vouchers are sold through the business-to-business sales teams. Customers use their vouchers through the central back office systems at country level.
- The business-to-business events are organized at multiplex and at country level.

In the impairment test the value in use was taken into consideration. For all cash flow generating units the value is use was defined by discounting the future cash flows calculated over the period 2012-2031, based on the forecast for 2011. The future cash flows are calculated over a period of 20 years, since the Group owns nearly all of its property, which guarantees exploitation in the long run. For the period 2012-2031 the data of the 2011 forecast for all cash flow generating units were extrapolated on the basis of the following assumptions:

- The visitor figures were determined on a historical basis.
- EBITDA grows by 1 % annually, presuming that the Group is able to take further measures to increase the margin.
- The maintenance investments are based on the historical run rate and increase by 1 % every year.

The projections are performed in the functional currency of the relevant country and discounted at the weighted average cost of the country's capital. The proposed weighted average cost of capital is 6.75 % for Belgium, France and Spain and 7.90 % for Poland (same as 2010), determined on the basis of the following theoretical parameters:

- For Belgium, France and Spain: a risk-free interest rate of 6 %, a market risk premium of 5.25 %, a Beta of 1.05 and a proposed cost of debt before tax of 6.72 %.
- For Poland: a risk-free interest rate of 6 %, a market risk premium of 5.25 %, a Beta of 1.05 and a cost of debt before tax of 7.00 %.

These percentages were tested against the weighted average cost of capital based on the parameters used by the analysts that monitor the share of the Group. There was a significant margin each time. The weighted average cost of capital before tax is 8.16 % for Belgium, France and Spain and 7.90 % for Poland (same as 2010). For Poland the weighted average cost of capital before and after tax is equal due to the existence of losses carried forward. The weighted average cost of capital before tax is determined by dividing the rate after tax by the sum of one minus the applicable tax rate. This simplified calculation method does not differ materially from the iterative calculation method as described in BCZ 85, IAS 36.

Management believes that the assumptions used in the impairment tests provide the best estimates of the future developments and believes that no reasonably possible change in any of the principle assumptions would lead to a carrying value of the cash flow generating units that would materially exceed their realizable value. The cost of the borrowing before tax included in the weighted average cost of capital before tax is 3 % higher than the current cost of debt. A further possible increase in the cost of debt before tax from 6.72 % to 10 % results in a 1.6 % increase in the weighted average cost of capital. This possible change would not lead to the need to recognize an impairment.

Goodwill per cash flow generating unit

IN '000 €	2010	2011
Belgium	6 586	6 586
France	3 299	3 299
Spain	2 374	2 374
Poland	6 502	6 502
TOTAL	**18 761**	**18 761**

Part of the goodwill that used to be allocated to Belgium actually concerns France. This was rectified in 2011. The comparative figures for 2010 were also adjusted (€ 0.7 million).

Business combinations

The Group acquired 100 % of the shares of advertising agency Brightfish NV on 19 December 2011.

Brightfish NV, formerly Screenvision Belgium NV, commercializes the screen advertising for 436 cinema screens on Belgian market. Besides the sale of national and local screen advertising, Brightfish NV is also engaged in production, billing, field activation and event organization. It is also responsible for joint campaings within the cinema industry, such as the Film Days and cinevox.be, the content platform to promote Belgian film.

The acquisition of Brightfish NV extends the Group's activities in Belgium. In addition to cinema operation, in-theatre sales, business-to-business, real estate and film distribution, the Group is now also active in screen advertising.

Brightfish NV was acquired for the symbolic amount of one euro. By the contribution in kind of part of its receivable of € 1.8 million, the Group increased the capital of Brightfish NV and solved the company's problem of negative equity. Including this transaction, the addition of Brightfish NV into the consolidation scope as from 1 October 2011, the date on which control was gained, resulted in a gain on bargain purchase of € 0.3 million, which was recognized in the income statement (other operating income).

During the last three months of 2011, Brightfish NV contributed € 3.7 million to revenue and € 0.7 million to the result of the Group. This quarterly result is not representative for the full year. Due to the strong seasonality of the activities of Brightfish NV, its result is mainly realised in the fourth quarter. If Brightfish NV had been acquired on 1 January 2011, management estimates that the consolidated income would have been € 260.4 million and the consolidated result of the year would have amounted to € 36.7 million. When determining these amounts management assumes that the adjustments to the fair values on the acquisition date would have been the same if the acquisition had occurred on 1 January 2011.

Net identifiable assets and liabilities

IN '000 €	1/10/2011
	Brightfish NV
Intangible assets	89
Property, plant and equipment	244
Non-current trade and other receivables	136
Current trade and other receivables	4 629
Cash and cash equivalents	1 192
Provisions	-450
Current trade and other payables	-5 568
TOTAL	**272**

11. Property, plant and equipment

IN '000 €	LAND AND BUILDINGS	PLANT, MACHINERY & EQUIPMENT	ASSETS UNDER CONSTRUCTION	TOTAL
Acquisition value	342 989	128 917	1 392	473 298
Depreciation and impairment losses	-146 318	-91 382	-12	-237 712
NET CARRYING VALUE AT 31/12/2009	**196 671**	**37 535**	**1 380**	**235 586**
Acquisitions	3 169	19 113	311	22 593
Sales and disposals	-113	-10 129	-72	-10 314
Transfer to assets classified as held for sale	-358	965	-578	29
Transfer from / to other categories	-4 568	5 217	-673	-24
Depreciation	-10 388	-11 095		-21 483
Effect of exchange rate fluctuations	994	62	3	1 059
Acquisition value	321 790	157 502	371	479 663
Depreciation and impairment losses	-136 383	-115 834		-252 217
NET CARRYING VALUE AT 31/12/2010	**185 407**	**41 668**	**371**	**227 446**
Acquisitions	2 806	9 121	180	12 107
Sales and disposals	-43	-25	-55	-123
Acquisitions through business combinations	99	146		245
Transfer from / to other categories	159	97	-256	
Depreciation	-9 176	-9 424	-1	-18 601
Effect of exchange rate fluctuations	154	5	-2	157
Acquisition value	324 428	166 734	238	491 400
Depreciation and impairment losses	-145 022	-125 146	-1	-270 169
NET CARRYING VALUE AT 31/12/2011	**179 406**	**41 588**	**237**	**221 231**

Acquisitions

The acquisitions under Plant, Machinery & Equipment consist primarily of the digital projectors and the remodeling of a number of complexes.

Leased plant, machinery and equipment

In 2011 new digital projectors were leased for € 2.1 million. In 2010 the Group's existing digital projectors were sold to a third party at net carrying value and leased back for a period of six years. A number of new digital projectors were also leased for a total value of € 10.1 million. The carrying value of these leased projectors and equipment was € 10.2 million at 31 December 2011 (2010: € 9.7 million). During the term of the lease, the leased assets can be bought back at their present value under the contract, plus a fine. At the end of the contract the assets can be acquired at 1 % of their original value under the contract.

12. Investment property

IN '000 €	LAND AND BUILDINGS	PLANT, MACHINERY & EQUIPMENT	ASSETS UNDER CONSTRUCTION	TOTAL
Acquisition value	16 475	515		16 990
Depreciation and impairment losses	-3 514	-317		-3 831
NET CARRYING VALUE AT 31/12/2009	**12 961**	**198**		**13 159**
Transfer from / to assets classified as held for sale	1 241			1 241
Transfer from / to other categories	22			22
Depreciation	-324	-51		-375
Effect of exchange rate fluctuations	432	6		438
Acquisition value	18 305	534		18 839
Depreciation and impairment losses	-3 973	-381		-4 354
NET CARRYING VALUE AT 31/12/2010	**14 332**	**153**		**14 485**
Acquisitions		3		3
Depreciation	-314	-33		-347
Effect of exchange rate fluctuations	-1 290	-14		-1 304
Acquisition value	16 584	481		17 065
Depreciation and impairment losses	-3 856	-372		-4 228
NET CARRYING VALUE AT 31/12/2011	**12 728**	**109**		**12 837**

Since 18 January 2007 the land, buildings and equipment in Poznan (Poland) are no longer used for Kinepolis' own operations, but have been leased to Cinema City, owned by the cinema group ITIT, and to a number of smaller third parties. As required by IAS 40 (investment property), the assets in question have been reclassified under this heading.

In 2009 part of the land in Poznan (Poland) was transferred to 'Assets classified as held for sale', because this land was likely to be sold within the year (€ 1.1 million at the former exchange rate). At the end of 2010 it was transferred back to 'Investment property' as the sale did not take place.

The rental income from investment property was € 1.3 million (2010: € 1.4 million). The direct operating charges (including repairs and maintenance) ensuing from investment property were € 0.5 million (2010: 0.5 million).

The fair value of the investment property as recently determined by an independent expert was € 18.0 million (2010: € 19.9 million). The fall in the fair value compared to 2010 is due to the fall in the Polish złoty against the euro in 2011.

13. Deferred tax

IN '000 €	2010	2011
Property, plant and equipment and other intangible assets	1 265	1 001
Investment grants receivable	2 138	1 891
Provisions	75	110
Government grants	297	280
Tax losses carried forward and other deferred tax assets	3 721	3 586
Inventories		3
TOTAL	**7 496**	**6 871**
Tax offsetting	-5 948	-5 320
DEFERRED TAX ASSETS	**1 548**	**1 551**
Property, plant and equipment and other intangible assets	-18 370	-18 488
Provisions	-148	-151
Government grants	-1 348	-1 000
TOTAL	**-19 866**	**-19 639**
Tax offsetting	5 948	5 320
DEFERRED TAX LIABILITIES	**-13 918**	**-14 319**

Temporary differences for which no deferred tax assets are recognized
No deferred tax asset is recognized in the balance sheet in respect of tax losses carried forward and temporary differences that would result in a deferred tax asset in an amount of € 25.4 million (2010: € 30.0 million), because it is improbable that sufficient taxable profit will be available within the timeframe to be able to enjoy the tax benefit. The tax losses carried forward can be carried forward to an unlimited degree for Belgium, France and the Netherlands. In Poland and Switzerland the losses can be carried forward for 5 and 7 years respectively.

Temporary differences for which no deferred tax liabilities are recognized
If the Group were to pay out all of its subsidiaries' reserves, an additional deferred tax liability of € 3.1 million would have to be recognized (2010: € 2.8 million).

14. Inventories

IN '000 €	2010	2011
Raw materials and consumables	292	278
Goods purchased for resale	3 411	2 746
TOTAL	**3 703**	**3 024**

The goods purchased for resale include goods purchased for resale in the multiplexes for € 0.9 million (2010: € 1.0 million), 3D glasses for € 1.3 million (2010: € 1.7 million) and components of the Group's technical department for € 0.8 million (2010: € 1.0 million).

The cost of sales of inventories recognized in the income statement in 2010 was € 15.2 million (2010: € 14.3 million).

15. Trade and other receivables

Non-current other receivables

IN '000 €	2010	2011
Cash guarantees	202	360
Other receivables	15 996	14 005
TOTAL	**16 198**	**14 365**

In 2011 all non-current other receivables relate to the sector-related government grants (CNC) obtained in France (2010: € 15.0 million).

The receivable from the cinema group ITIT for € 1.0 million, in connection with the transfer of the activity in Poland to this group, was reimbursed in January 2012 and accordingly transferred to current in 2011 (2010: € 1.0 million).

Current trade and other receivables

IN '000 €	2010	2011
Trade receivables	15 088	19 851
Taxes receivable, other than income taxes	1 874	2 175
Deferred charges and accrued income	312	115
Tax shelter receivables	450	770
Tax shelter investments	258	351
Other receivables	1 641	4 113
TOTAL	**19 623**	**27 375**

Tax shelter receivables concern the loans made to third parties to finance and support the production of movies in Belgium.

Tax shelter investments concern the film rights the Group acquires as part of tax shelter transactions.

The other current receivables primarily consist of the current portion of the French government grants (CNC) for € 2.5 million and the above-mentioned receivable from cinema group ITIT for € 1.0 million. They do not include any financial assets.

Ageing of the non-current and current trade and other receivables

IN '000 €	GROSS CARRYING VALUE 2010	IMPAIRMENT 2010	NET CARRYING VALUE 2010	GROSS CARRYING VALUE 2011	IMPAIRMENT 2011	NET CARRYING VALUE 2011
Not yet due on reporting date	28 550	-9	28 541	33 179	-5	33 174
Less than 30 days past due	4 313	-30	4 283	4 922	-9	4 913
Between 31 and 120 days past due	1 152	-167	985	3 099	-130	2 969
Between 120 days and 1 year past due	1 227	-793	434	648	-410	238
Over 1 year past due	5 868	-4 290	1 578	1 264	-818	446
TOTAL	**41 110**	**-5 289**	**35 821**	**43 112**	**-1 372**	**41 740**

In 2009 an impairment of € 1.7 million was recognized with respect to the outstanding receivable from Brightfish NV, formerly Screenvision Belgium NV, on 30 June 2009 (recognized in 'over 1 year past due' in 2010). Pursuant to the acquisition of Brightfish NV and the contribution in kind of this part of the receivable in the capital of Brightfish NV in 2011, this amount is no longer recognized in past due receivables from third parties at 31 December 2011.

Movement in the allowance for impairment of trade receivables

IN '000 €	2010	2011
BALANCE AT END OF PREVIOUS PERIOD	**-5 139**	**-5 289**
Recognized impairments	-486	-580
Utilized impairments	154	3 937
Reversed impairments	259	587
Effect of exchange rate fluctuations	-77	-27
BALANCE AT END OF CURRENT PERIOD	**-5 289**	**-1 372**

No impairment allowance was recognized for past due amounts where collection continues to be deemed likely.

For the financial assets other than trade receivables there is no ageing problem.

16. Cash and cash equivalents

IN '000 €	2010	2011
Current investments (less than three months)	2 500	2 600
Cash at bank and in hand	10 084	15 070
TOTAL	**12 584**	**17 670**
Bank overdrafts considered as cash and cash equivalents in the statement of cash flows	-346	-126
CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS	**12 238**	**17 544**

17. Other financial assets

IN '000 €	2010	2011
Other	27	27
TOTAL	**27**	**27**

18. Assets classified as held for sale

IN '000 €	2010	2011
BALANCE AT END OF PREVIOUS PERIOD	**9 912**	**8 138**
Sales and disposals	-537	-1 417
Transfer to / from other categories	-1 269	
Effect of exchange rate fluctuations	32	
BALANCE AT END OF CURRENT PERIOD	**8 138**	**6 721**

On 31 December 2011 the assets held for sale consist of the land in Valencia (Spain). Sales efforts are ongoing. The sales are expected to take place within the year.

In 2011 the last 13 apartments with garages in Ghent (Belgium), which were part of the Group's partnership with Groep Blijweert, were sold. The former cinema 'Opéra' in Liège (Belgium) was sold in 2011. The total capital gain on the two projects was € 2.8 million.

19. Equity

The various components of equity as well as the changes between 31 December 2010 and 31 December 2011 are set out in the Consolidated Statement of Changes in Equity.

Issued capital
The Company's share capital at 31 December 2011 was € 19.0 million (2010: € 49.0 million), represented by 6 581 355 ordinary shares without nominal value (2010: 6 930 778 shares). All shares are paid up in full. The share premium at 31 December 2011 was € 1.2 million (2010: € 1.2 million). The ordinary shares are entitled to dividend and the holders of these shares are entitled to cast one vote at the Company's shareholder meetings.

The Company's capital was reduced by € 30.0 million in 2011, following the approval by the Extraordinary General Meeting of 20 May 2011.

The Extraordinary General Meeting of 20 May 2011 also authorized the Board of Directors to buy back, under certain conditions, up to 1 108 924 of the Company's shares, 1 074 270 for destruction and 34 654 to cover new options. At 31 December 2011 the Group owned 323 310 of its own shares (2010: 277 231). In 2011, 395 502 of the Company's shares were bought back, of which 349 423 shares were destroyed.

The authority of the Board of Directors to increase the authorized capital in one or more installments up to a maximum of € 48 883 132.15 was renewed by the Extraordinary General Meeting of 18 May 2007 for a term of 5 years, ending on 7 June 2012.

Hedging reserve
The hedging reserve contains the effective portion of the cumulative net change in the fair value of the cash flow hedges for which the hedged future transaction has not yet occured.

Translation reserve
The translation reserve includes all exchange rate differences resulting from the translation of the financial statements of foreign entities.

Share-based payments reserve
At 31 December 2011 a total of 300 424 options were allocated (2010: 252 924 options). These options entitle their holders to one share per option (see note 21). The options will expire ten years after the date of approval of the Plan by the Board of Directors, which is 5 November 2017.

Dividends
On 14 February 2012 a dividend of € 10.6 million was proposed with respect to 2011 (2010: € 8.4 million). This dividend has not yet been approved by the Company's General Meeting of Shareholders and is therefore not yet recognized in the consolidated financial statements.

20. Earnings per share

IN '000 €	2010	2011
Profit attributable to owners of the Company	**27 847**	**36 194**
Weighted average number of ordinary shares	6 654	6 550
Effect of options	71	110
Weighted average number of diluted shares	6 725	6 660
Basic earnings per share (in €)	**4.19**	**5.53**
Diluted earnings per share (in €)	**4.14**	**5.44**

Basic earnings per share
The calculation of the basic earnings per share is based on the profit of € 36.2 million attributable to the ordinary shareholders (2010: € 27.8 million) and a weighted average number of ordinary shares outstanding during the year of 6 550 294 (2010: 6 653 547).

Diluted earnings per share
The calculation of the diluted earnings per share is based on the profit of € 36.2 million attributable to the ordinary shareholders (2010: € 27.8 million) and a weighted average number of diluted ordinary shares outstanding during the year of 6 660 484 (2010: 6 724 804).

21. Share-based payments

Share Option Plan
On 5 November 2007 the Board of Directors approved a share option plan to encourage and reward selected Directors and executives who are able to contribute to the success and to the long-term growth of the Group. 277 231 options can be granted under this plan.

At the Board meeting of 18 December 2007 it was decided to set the exercise price at the average stock market price of the 30 days preceding the offer. The option will expire 10 years after the date of its approval by the Board of Directors.

The Board of Directors of 25 March 2011 approved the enlargement of the 2007-2016 share option plan by 34 654 shares.

At 31 December 2011 the total number of allocated options of the share option plan was 300 424 (2010: 252 924). No options were exercised or waived. 47 500 additional options were granted in 2011.

The fair value of these share-based payments was estimated when the options were allocated, using a Trinomial (American type call option) valuation model.

The expected volatility is based on the historic volatility calculated on the basis of five years of historic data.

AMOUNTS IN € UNLESS STATED OTHERWISE	03/2008	02/2009	08/2009	08/2010	03/2011	10/2011
Fair value of allocated options	10.00	2.55	8.65	12.50	12.70	13.35
Share price at grant date	28.51	15.20	26.00	43.50	52.15	58.80
Exercise price	23.85	10.74	18.91	37.41	48.19	56.20
Expected volatility	31 %	35 %	41 %	39 %	41 %	29 %
Expected term (in years)	8	6	6	5	4	5
Expected dividend growth	10 %	10 %	10 %	10 %	10 %	10 %
Risk-free interest	4.70 %	3.20 %	3.30 %	2.55 %	3.16 %	2.15 %

The options can be exercised for the first time during the first exercise term, which falls in the fourth calendar year after the year in which the options were offered to the participants. The options granted in 2008 can be acquired in tranches of 12.5 % per year on each anniversary of the grant date. The options granted in 2009 can be acquired in tranches of 16 % per year during the first five years after allocation, the final tranche of 20 % can be acquired in the sixth year after granting. The options granted in 2010 can be permanently acquired in tranches of 20 % per year during the first five years after granting. The options granted in March 2011 can be permanently acquired in tranches of 25 % per year during the first four years after granting. The options granted in October 2011 are vested in tranches of 20 % per year during the five years after their grant date.

AMOUNTS IN € UNLESS STATED OTHERWISE	NUMBER OF OPTIONS 2010	WEIGHTED AVERAGE EXERCISE PRICE 2010	NUMBER OF OPTIONS 2011	WEIGHTED AVERAGE EXERCISE PRICE 2011
Outstanding options at the end of the previous year	237 924	27.04	252 924	27.91
Options granted during the year	15 000	41.74	47 500	54.07
Outstanding options at the end of the year	252 924	27.91	300 424	32.05
Exercisable options at the end of the year				

22. Loans & borrowings

This note provides information on the contractual stipulations of the Group's loans and borrowings.

For further information on the Group's exposure to interest and exchange rate risks, see note 25.

Non-current loans and borrowings

IN '000 €	2010	2011
Leasing and similar liabilities	8 437	8 502
Guaranteed loans and borrowings with credit institutions	49 000	30 000
TOTAL	**57 437**	**38 502**

Current loans and borrowings

IN '000 €	2010	2011
Leasing and similar liabilities	1 517	1 894
Guaranteed loans and borrowings with credit institutions	14 000	51 000
Other loans and borrowings	6 500	3 000
TOTAL	**22 017**	**55 894**

At the end of 2011 the outstanding Commercial Paper debt was € 3.0 million (2010: € 6.5 million). This amount is included in Other loans and borrowings.

Finance lease liabilities

In 2011 digital projectors were sold and leased back for six years for € 2.1 million (2010: € 10.1 million).

In 2011 the future minimum lease payments were as follows:

IN '000 €	PAYMENTS 2010	INTEREST CHARGES 2010	CAPITAL 2010	PAYMENTS 2011	INTEREST CHARGES 2011	CAPITAL 2011
Less than one year	1 885	-368	1 517	2 276	-382	1 894
Between one and five years	7 540	-822	6 718	8 966	-706	8 260
More than five years	1 749	-30	1 719	245	-3	242
TOTAL	**11 174**	**-1 220**	**9 954**	**11 487**	**-1 091**	**10 396**

23. Provisions

IN '000 €	2010	2011
BALANCE AT END OF PREVIOUS PERIOD	**2 972**	**2 446**
Provisions set up	696	1 205
Discounting of provisions	39	40
Use of provisions	-576	-337
Reversal of provisions	-703	-13
Changes in the consolidation scope		450
Effect of exchange rate fluctuations	18	
BALANCE AT END OF CURRENT PERIOD	**2 446**	**3 791**
Balance at end of current period (non-current)	2 274	3 513
Balance at end of current period (current)	172	278
TOTAL	**2 446**	**3 791**

The provisions primarily concern the reinstatement of land, transformation costs and a number of disputes.

Reinstatement of land

The Brussels cinema complex's lease on the land owned by the City of Brussels ends in 2025. The Company has a contractual obligation to restore the land to its original state. At 31 December 2011 the provision for the demolition of the building and the reinstatement of the land to its original state was € 1.0 million (2010: € 1.0 million).

Transformation

€ 0.5 million of the provision for transforming the organization set up by the Group in 2009 for € 0.8 million was used in 2010. In 2011, € 0.1 million of this provision was used. Furthermore, in 2011 additional transformation provisions were set up for € 1.0 million.

Disputes

A number of provisions for disputes were set up in 2010 in a total amount of € 0.5 million. The amount of these provisions was unchanged on 31 December 2011.

24. Trade and other payables

Current trade and other payables

IN '000 €	2010	2011
Other payables	10 132	9 318
TOTAL	**10 132**	**9 318**

The non-current other payables primarily consist of the government grants received in France (CNC). These government grants, in the amount of € 9.0 million (2010: € 9.7 million), are recognized as other operating income in line with the depreciation of the assets for which these grants were obtained.

Current trade and other payables

IN '000 €	2010	2011
Trade payables	41 070	48 740
Employee benefits	7 162	8 146
Taxes payable, other than income taxes	3 667	5 088
Tax shelter payables	550	500
Advances received for contracts in progress	2 789	361
Accrued charges and deferred income	11	63
Other payables	299	433
TOTAL	**55 548**	**63 331**

Other payables

The higher other payables at 31 December 2011 are due to the remaining amount of € 0.1 million to be paid out with regard to the capital reduction that was carried out in 2011.

Advances received for contracts in progress

The fall in advances received for contracts in progress concerns the recognition in the income statement of the advances received with regard to the project development of apartments at the Kinepolis Ghent site.

25. Financial instruments

Financial risk management

The Group's principal financial instruments are bank loans, finance leases and cash.

The Group has various other financial instruments such as trade debtors and creditors, which arise directly from its operations.

The Group also enters into derivative financial instruments, primarily forward rate agreements, interest swaps and foreign exchange forwards. The purpose is to manage the interest rate and currency risks arising from the Group's activities and its sources of financing.

It is Group policy not to undertake any trading positions in derivative financial instruments.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. It is Group policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item so as to maximize hedge effectiveness.

The Board of Directors investigates and approves policies for managing each of these risks. These policies are summarized below. The Group's accounting policies in relation to derivatives are set out in the accounting policies.

Interest rate risk

The Group's exposure to market risk for changes in interest rates primarily relates to the Group's short and long-term loans and borrowings.

Group policy is to manage interest rate costs with a mixture of fixed and variable interest rate liabilities. To manage this mix in a cost-efficient manner, the Group enters into:

a) interest rate swaps and forward rate agreements in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to a pre-agreed principal amount.
b) interest rate derivatives with fixed ceilings, hence limiting the impact of interest rate movements whilst leaving the opportunity to benefit from low short-term floating interest rates.

At balance sheet date the Group had interest rate swaps outstanding, on which the Group receives a variable interest rate equal to EURIBOR, and on which it pays a fixed interest rate. These swaps are used to cover the variability in the cash flows of the underlying loans.

These interest rate swaps are determined as cash flow hedges in accordance with the IAS 39 hedge accounting. Therefore the effective portion of the change in fair value of the interest rate swaps is recognized directly in equity. The total changes in fair value of the interest rate swaps recognized in equity resulted in a decrease in equity of € 0.1 million at 31 December 2011 (2010: an increase of € 1.6 million).

Kinepolis pursues a conservative financial policy. To hedge interest risk, since 2008 Kinepolis uses only derivative financial instruments of which movements in fair value are offset directly against equity and have no impact on the income statement (hedge accounting).

All interest rate derivatives deemed to be freestanding were ended in 2008. In 2011 this gave a positive result of € 0.0 million recognized in the income statement (2010: € 0.0 million).

At 31 December 2011, after taking into account the effect of interest rate swaps, 72 % of the Group's borrowings were recognized at a fixed interest rate (2010: 93 % at a fixed interest rate).

Interest risk sensitivity analysis

The interest-bearing loans at the balance sheet date were € 94.5 million (2010: € 79.8 million). € 84.1 million or 89 % of interest-bearing loans have a variable interest rate (€ 69.8 million or 88 % in 2010).

The total interest charged to the income statement in 2011, including the realized results on derivative interest rate instruments, were € 2.7 million (2010: € 4.2 million). According to the company's estimates the market interest rate applicable to the variable interest rate loans can reasonably be expected to change as follows:

	INTEREST RATE 31/12/2011	THEORETICAL VOLATILITY	POSSIBLE INTEREST RATE 31/12/2011 AS USED IN THE SENSITIVITY ANALYSIS
EURIBOR (3m)	1.36 %	20 %	1.08 % - 1.63 %

Applying the possible increases/decreases in the market interest rates as given above to our variable rate borrowings at 31 December 2011, and all other variables being constant, the 2011 profit would be € 0.2 million lower/higher (2010: € 0.1 million). We estimated that this effect would be partially neutralized by the € 0.2 million higher or lower interest income from interest rate derivatives (2010: € 0.1 million).

Foreign currency risk

The Group has a foreign currency risk on positions deriving from sales or purchases and from outstanding borrowings with group companies in currencies other than the functional currency (EUR) (transaction risk).

Group policy is focused on minimizing the impact on profit of exchange rate fluctuations. Derivative financial instruments are used to immediately hedge any transactional exchange rate risk upon identification.

Less than 2 % of the Group's sales and purchases are denominated in currencies other than the functional currency (2010: 1 %).

Loans between Kinepolis Financial Services NV and other Group companies are expressed in the currency of the latter. As from 2011, foreign exchange results regarding the long-term loans in CHF and PLN of Kinepolis Financial Services NV to Kinepolis Schweiz AG and Kinepolis Poznan Sp.z o.o. are recognized in other comprehensive income, because these loans are considered to be part of the Group's net investment in these foreign entities. Until the end of 2010 these loans were hedged with interest rate swaps with various currencies (CCIRS). These instruments were viewed as freestanding. The changes in the fair value of the CCIRS were therefore recognized in the income statement. The total of the changes in the fair value of the CCIRS up to their ending at the end of December 2010 resulted in a loss of € 1.1 million. The remeasuring of the underlying loans resulted in a profit of € 2.3 million in 2010.

The Group also incurs a foreign currency risk from consolidating foreign companies not having the EUR as their functional currency (Switzerland and Poland). This translation risk is not hedged.

Currency risk sensitivity analysis

A. Foreign currency translation risk
Only 2 % of the Group's revenue is realized by subsidiaries that do business in a currency other than the euro. When the financial data of these entities are converted into the Group's presentation currency, which is the euro, a translation risk occurs. The foreign currencies in which the Group's subsidiaries operate are the Polish złoty and the Swiss franc. Based on a theoretical volatility of these currencies against the euro, we have estimated the potential change in the exchange rates of these currencies against the euro as follows:

1 EURO IS EQUAL TO:	CLOSING RATE 31/12/2011	AVERAGE RATE 2011	THEORETICAL VOLATILITY	POSSIBLE CLOSING RATE 31/12/2011	POSSIBLE AVERAGE RATE 2011
Polish złoty	4.4168	4.1401	20 %	3.53 - 5.30	3.31 - 4.97
Swiss franc	1.2156	1.2588	20 %	0.97 - 1.46	1.01 - 1.51

B. Foreign currency transactional risk
Most of Kinepolis's financial instruments are expressed in the Company's functional currencies. Where this is not the case, derivatives are used in order to cover the foreign currency risk.

For 2010 the transactional currency risk consisted primarily of loans in currencies (PLN and CHF) other than the company's functional currency. In 2010 the currency risks on these loans were hedged by EUR variable / CHF variable and EUR variable / PLN variable interest rate swaps with various currencies (CCIRS) in a total amount of € 16.8 million with final maturities in 2012, 2014 and 2015. At 31 December 2010 there were no remaining hedging contracts.

If, at the balance sheet date, the Polish złoty and the Swiss franc had strengthened/weakened as above, and all other variables being constant, the 2011 profit would have been € 0.5 million higher (2010: € 4.0 million lower) or € 0.3 million lower (2009: € 6.0 million higher) and equity at the end of 2011 would have been € 6.0 million lower or € 4.0 higher. The change compared to the previous year of the potential impact on profit and the potential impact on equity is due to the fact that the foreign exchange results with regard to the long-term loans in CHF and PLN are recognized in other comprehensive income as from 2011, because these loans are part of the Group's net investment in these foreign entities.

Credit risk
The credit risk with respect to trade receivables is the risk of financial loss the Group is exposed to if a customer fails to meet its contractual obligations. It is Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The Group sets up an impairment provision in the amount of the estimated losses from trade receivables. These are specific provisions for individually significant positions.

With respect to the credit risk arising from the other financial assets of the Group, including cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk consists of the counterparty default risk, with a maximum exposure equal to the carrying amount of these instruments.

There are no longer any significant concentrations of credit risk within the Group. After the acquisition of Brightfish NV, formerly Screenvision Belgium NV, and the contribution in kind of part of Kinepolis Group NV's receivable in the capital of Brightfish NV at the end of 2011, the credit risk problem with regard to this company was resolved.

The extent of the Group's credit risk exposure is represented by the aggregate balance of the financial assets. The maximum nominal credit risk in the event that all parties were to fail to meet their obligations was € 59.4 million at 31 December 2011 (2010: € 48.4 million).

Liquidity risk

The Group seeks to maintain a balance between continuity in funding and flexibility through the use of credit lines, bank loans and finance leases. Group liquidity is managed through the in-house bank, Kinepolis Financial Services NV.

IN '000 €	CARRYING VALUE		FAIR VALUE	
	2010	2011	2010	2011
Bank overdrafts	346	126	346	126
Lease liabilities – fixed interest rate	9 954	10 396	9 954	10 360
Loans and borrowings – variable interest rate	69 500	84 000	69 500	84 000
TOTAL	**79 800**	**94 522**	**79 800**	**94 486**

Fair value

Fair value is the amount at which an asset can be traded or a liability settled between well-informed, willing parties, following the 'arm's length' principle. The table above gives the fair value and the carrying value of the main interest-bearing financial loans and borrowings.

The fair value of interest rate derivative financial instruments is determined by discounting the expected future cash flows based on current market interest rates and the interest rate curve for the remaining life of the investment.

The fair value of forward foreign exchange contracts is calculated as the discounted value of the difference between the contract value and current forward exchange rates.

The table below gives the nominal or contractual amounts and the clean fair value of all outstanding derivative financial instruments. The nominal or contractual amounts reflect the volume of the derivative financial instruments outstanding at the balance sheet date. As such they do not in any way represent the Group's risk on these transactions. Part of the interest rate swaps concluded on 31 December 2011 do not begin until 2012 (€ 20.0 million). The fair value of these contracts on 31 December 2011 was recognized in the balance sheet (€ -0.3 million).

IN '000 €	NOMINAL OR CONTRACTUAL AMOUNT		FAIR VALUE	
	2010	2011	2010	2011
Interest rate swaps	64 500	77 500	-1 297	-1 367
TOTAL	**64 500**	**77 500**	**-1 297**	**-1 367**

For other financial assets and liabilities, the fair value is equal to the carrying value.

The fair value of these derivative financial instruments is included in the Group's balance sheet as follows:

IN '000 €	ASSETS		LIABILITIES		NET VALUE	
	2010	2011	2010	2011	2010	2011
Non-Current	5		-1 018	-856	-1 013	-856
Current			-284	-511	-284	-511
TOTAL	**5**		**-1 302**	**-1 367**	**-1 297**	**-1 367**

Fair value hierarchy

The table below provides an overview of financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable input).

IN '000 €		2010			2011	
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Cash flow hedging						
Interest rate swaps		-1 297			-1 367	
TOTAL		**-1 297**			**-1 367**	

Debt portfolio

Under the Term and Revolving Facilities Agreement (€ 175 million) of 26 November 2004, amended on 13 July 2007, Kinepolis Group NV granted pledge mandates on business assets and mortgage mandates on property in the amount of the outstanding financial debt. These mandates can be converted into actual pledges only if Kinepolis Group NV fails to meet certain commitments under the Loan Agreement.

The Term and Revolving Facilities Agreement contains certain financial covenants, including a maximum leverage ratio, a minimum interest coverage and a minimum solvency ratio, as well as a number of potentially restrictive undertakings limiting or preventing specific business transactions. These covenants were attained in both 2010 and 2011.

The interest expense is calculated on the basis of the EURIBOR applicable to the selected borrowing period plus the negotiated margin.

In the autumn of 2009 a Commercial Paper program was issued with a maximum value of € 50 million for short-term financing purposes. At 31 December 2011 € 3.0 million had been taken up (2010: € 6.5 million). The Term and Revolving Facilities Agreement functions as backup financing. It is a flexible alternative to bank financing, comparable with a short-term corporate bond. The interest expense is calculated on the basis of the EURIBOR applicable to the selected borrowing period plus the negotiated margin.

In late 2010 a sale and leaseback agreement was concluded for an amount up to € 17.5 million. Under this agreement Kinepolis sells assets with a long useful life and leases them back for a term of six years. This facility provides an additional alternative to long-term bank financing. At 31 December 2011 € 10.4 million had been taken up (2010: € 10.0 million). These lease liabilities are guaranteed by the leased assets. The payable interest is calculated on the basis of a fixed interest rate determined as a weighted average of the BPR over 1 up to 6 years, increased by the negotiated margin.

To pay off the above-mentioned credit agreement, which is coming to an end, the Company entered into a new credit agreement on 15 February 2012 for € 90.0 million until 31 March 2017. This new agreement also contains the usual covenants. However, pledges were no longer given. The pledges concerning the previous Term and Revolving Facilities Agreement were released on 6 March 2012.

Furthermore, on 22 February 2012 the Company issued a public bond with a nominal amount of € 75.0 million and a coupon of 4.75 %. This bond matures in seven years.

Financial liabilities – future cash flows

The following table gives an overview of the contractual maturities for the financial liabilities, including the estimated interest.

IN '000 €	1 YEAR OR LESS 2011	1-5 YEARS 2011	MORE THAN 5 YEARS 2011	TOTAL 2011
Non-derivative financial liabilities				
Trade payables	48 740			48 740
Tax shelter payables	500			500
Third party current account payables	17			17
Bank overdrafts	126			126
Guaranteed loans and borrowings with credit institutions	75 336	7 316		82 652
Commercial Paper	3 051			3 051
Finance lease liabilities	2 276	8 966	245	11 487
Financial derivatives				
Interest rate swaps	775	361		1 136
TOTAL	**130 821**	**16 643**	**245**	**147 709**

IN '000 €	1 YEAR OR LESS 2010	1-5 YEARS 2010	MORE THAN 5 YEARS 2010	TOTAL 2010
Non-derivative financial liabilities				
Trade payables	41 070			41 070
Tax shelter payables	550			550
Third party current account payables	76			76
Bank overdrafts	346			346
Guaranteed loans and borrowings with credit institutions	15 146	50 864		66 010
Commercial Paper	6 593			6 593
Finance lease liabilities	1 885	9 289		11 174
Financial derivatives				
Interest rate swaps	846	249		1 095
TOTAL	**66 512**	**60 402**		**126 914**

In respect of interest-bearing loans and borrowings with a variable interest rate, the following table shows the periods in which they reprice.

IN '000 €	2010		2011	
	TOTAL	< 1 YEAR	TOTAL	< 1 YEAR
Guaranteed loans and borrowings with credit institutions	63 000	63 000	81 000	81 000
Bank overdrafts	346	346	126	126
Commercial Paper	6 500	6 500	3 000	3 000
TOTAL	**69 846**	**69 846**	**84 126**	**84 126**

Hedging activities

The Group uses derivative financial instruments to hedge the interest rate risk. All derivative financial instruments are valued at market price. The following table gives the remaining term of the outstanding derivative financial instruments at closing date. The amounts given in this table are the notional amounts.

IN '000 €	< 1 YEAR 2011	1-5 YEARS 2011	5 YEARS 2011	TOTAL 2011
Interest				
Interest rate swaps	47 500	30 000		77 500

IN '000 €	< 1 YEAR 2010	1-5 YEARS 2010	5 YEARS 2010	TOTAL 2010
Interest				
Interest rate swaps	27 000	37 500		64 500

26. Operating leases

Lease as Lessee

Non-cancelable operating lease rentals are payable as follows:

IN '000 €	2010	2011
Less than one year	2 199	2 313
Between one and five years	9 131	9 209
More than five years	12 844	12 587
TOTAL	**24 174**	**24 109**
Rental expense in the income statement in respect of operating lease	**2 129**	**2 207**

The lease as lessee concerns the multiplex in Valencia (Spain), which has been leased over a term of 40 years since May 2001. There is an option to terminate the contract after 20 years.

Lease as Lessor

The Group has leased out parts of its property under operating leases. The future minimum lease payments under non-cancelable leases are as follows:

IN '000 €	2010	2011
Less than one year	6 054	5 625
Between one and five years	8 136	8 302
More than five years	2 928	2 702
TOTAL	**17 118**	**16 629**
Rental income in the income statement in respect of operating lease	**6 528**	**6 553**

The properties leased out consist on the one hand of the concessions, but the largest part of this amount consists of the multiplex in Poznan (Poland) that has been leased to Cinema City. The lease on the complex in Poland started in January 2007 for a period of 10 years (extendable by 5 years). The rent consists of a fixed and a variable portion, the latter is expressed as a percentage of Box Office revenue. This variable rent was € 0.3 million in 2011 (2010: € 0.4 million).

27. Capital commitments

There were no capital commitments at the end of 2011.

28. Contingencies

- Purchase option granted to a third party on land in Valencia next to Kinepolis Paterna, Spain.
- On 30 September 2008 the decision of Ostend's (Belgium) local authority to grant planning permission to build the Kinepolis multiplex in the town was annulled by the Council of State. Ostend municipality is working on a municipal spatial plan (GRUP) for the area in question, after which a new planning permit can be issued to regularize the existing situation of Kinepolis Ostend.
- The minority shareholders of Forum Kinepolis (Nîmes, France) have a put option on their shares, as soon as their shareholding falls under 20 %. The price is related to EBITDA.

29. Related parties

The transactions between the Group and its subsidiaries were eliminated in the consolidation and are accordingly not included in this note. The transactions with other related parties are explained below.

Remuneration of the directors and executive officers

IN '000 €	2010	2011
Directors		
Remuneration	314	365
Executive officers (CEOs)		
Short-term employee benefits	1 252	1 356
Share-based payments	338	244

The CEOs and the President of the Board of Directors took part in the 2006-2017 Group Share Option Plan (Incentive Plan) (see note 21) (207 924 options).

In the above table the share-based payments were adjusted with regard to 2010 because the amount reported in the prior year did not only concern the two CEOs and the President of the Board of Directors.

Transactions with other related parties:

- Three directors were granted a loan, which totalled € 0.1 million on 31 December 2010. The interest rate applicable on these loans was the average annual interest paid by the Company plus 10 base points. The loan was fully repaid at 31 December 2011.
- Kinohold BIS SA performs certain administrative duties for the Group for which it charges a fee at the market rate.
- In 2011 Kinepolis Group NV spent € 2.2 million on the services of a company linked to a majority shareholder (2010: € 2.6 million). These were arm's length transactions.
- Pentascoop NV provides a number of maintenance and transport services to the Group, for which it charges fees at the market rate.
- Pentascoop NV, whose permanent representative is Mrs M.S. Bert-Vereecke, was paid an annual remuneration of € 0.2 million for her industry know-how and her contribution to the development of the Group in her capacity of founder, in accordance with agreements made when Kinepolis Group NV was formed, for as long as Mrs M.S. Bert-Vereecke is a member of the Board of Directors. Bearing in mind the end of her term of office, this remuneration will no longer be granted as of the year 2012. As a result of this ending, the Board of Directors decided to grant Pentascoop NV exceptionally a € 0.2 million golden handshake, in recognition of the major contribution to the development, growth and professionalization of the Group.

30. Subsequent events

- Within the framework of the refinancing of its existing syndicated credit and the financing of the further general development of the Group, on 15 February 2012 Kinepolis signed a new € 90.0 million credit agreement with ING Belgium, KBC Bank and BNP Paribas Fortis, and on 20 February 2012 published an invitation to subscribe to non-subordinated bonds in Belgium in a minimum amount of € 50.0 million and a maximum amount of € 75.0 million. These bonds mature in seven years and have a fixed annual gross interest of 4.75 %. The subscription period was closed early on 22 February 2012 due to the massive response by mutual agreement between Kinepolis Group NV and the joint lead managers BNP Paribas Fortis, KBC Bank and ING Belgium. The total amount of the issue was € 75.0 million. The bonds were issued and listed on NYSE Euronext Brussels on 6 March 2012.
- As of the date of this annual report (29 March 2012) the Group had bought back 171 037 of its own shares in 2012 for € 10.6 million.

31. Group entities

List of fully consolidated companies

COUNTRY	NAME	MUNICIPALITY	VAT OR ENTERPRISE NUMBER	% 2010	% 2011
Belgium	CINEPROJECTS NV	Brussels	BE 0816 884 015	100	100
	Brightfish NV	Brussels	BE 0450 523 725	0	100
	Decatron NV	Brussels	BE 0424 519 114	100	100
	Kinepolis Braine SA	Braine-L'Alleud	BE 0462 688 911	100	100
	Kinepolis Film Distribution (KFD) NV	Brussels	BE 0445 372 530	100	100
	Kinepolis Financial Services NV	Brussels	BE 0886 547 831	100	100
	Kinepolis Group NV	Brussels	BE 0415 928 179	100	100
	Kinepolis Immo Hasselt NV	Hasselt	BE 0455 729 358	100	100
	Kinepolis Immo Liège NV	Hasselt	BE 0459 466 234	100	100
	Kinepolis Immo Multi NV	Brussels	BE 0877 736 370	100	100
	Kinepolis Liège NV	Hasselt	BE 0459 469 796	100	100
	Kinepolis Mega NV	Brussels	BE 0430 277 746	100	100
	Kinepolis Multi NV	Kortrijk	BE 0434 861 589	100	100
	Megatix NV	Brussels	BE 0462 123 341	100	100
France	Eden Panorama SA (Max Linder)	Lomme	FR 02340483221	100	100
	Forum Kinepolis SA	Nîmes	FR 86421038548	79.92	79.92
	Kinepolis France SA	Lomme	FR 20399716083	100	100
	Kinepolis Immo St.Julien-lès-Metz SAS	Metz	FR 51398364331	100	100
	Kinepolis Immo Thionville SA	Thionville	FR 10419162672	100	100
	Kinepolis Le Château du Cinéma SAS	Lomme	FR 60387674484	100	100
	Kinepolis Mulhouse SA	Mulhouse	FR 18404141384	100	100
	Kinepolis Nancy SAS	Nancy	FR 00428192819	100	100
	Kinepolis Prospection SAS	Lomme	FR 45428192058	100	100
	Kinepolis St. Julien-lès-Metz SA	Metz	FR 43398364463	100	100
	Kinepolis Thionville SA	Thionville	FR 09419251459	100	100
Luxembourg	Majestiek International SA	Luxembourg	LU 19942206638	100	100
Netherlands	Kinepolis Holding BV	Middelburg	NL 807760420B01	100	100
Poland	Kinepolis Poznan Sp.z o.o.	Poznan	NIP 5252129575	100	100
Spain	Kine Invest SA	Pozuelo de Alarcon	ESA 824 896 59	100	100
	Kinepolis Espana SA	Pozuelo de Alarcon	ESA 814 870 27	100	100
	Kinepolis Granada SA	Pozuelo de Alarcon	ESA 828 149 55	100	100
	Kinepolis Madrid SA	Pozuelo de Alarcon	ESA 828 149 06	100	100
	Kinepolis Paterna SA	Pozuelo de Alarcon	ESA 828 149 14	100	100
Switzerland	Kinepolis Schweiz AG	Schaffhausen	CH 2903013216-5	100	100

32. Mandates and remuneration of the Statutory Auditor

The Statutory Auditor for the Company is KPMG Bedrijfsrevisoren, represented by Ms S. Brabants.

For the entire Group, the mandates and remuneration can be summarized as follows:

IN €	2010	2011
Remuneration of the statutory auditor	**384 420**	**276 462**
Other audit-related services	22 190	2 500
Tax services		
Other	15 213	39 695
Remuneration for other services or assignments performed within the Company by the statutory auditor	**37 403**	**42 195**
Remuneration for persons associated to the statutory auditor for the performance of a mandate as statutory auditor		**128 628**
Other audit-related services		
Tax services	56 000	26 470
Other	138 000	8 000
Remuneration for other services or assignments performed within the Company by persons associated to the statutory auditor	**194 000**	**34 470**
TOTAL	**615 823**	**481 755**

Report of the Statutory Auditor

In accordance with legal and statutory requirements, we report to you on the performance of our audit mandate. This report includes our opinion on the consolidated financial statements together with the required additional comment.

Unqualified audit opinion on the consolidated financial statements

We have audited the consolidated financial statements of Kinepolis Group NV ('the company') and its subsidiaries (jointly 'the group'), prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated accounts comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated income statement, statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The total of the consolidated statement of financial position amounts to EUR 326,953,(000) and the consolidated income statement shows a profit for the year of EUR 36,471,(000).

Board of Directors' responsibility for the Consolidated Financial Statements
The board of directors of the company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing, legal requirements and auditing standards applicable in Belgium, as issued by the 'Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren'. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements.

The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the board of directors as well as the overall presentation of the consolidated financial statements. Finally, we have obtained from management and responsible officers of the company the explanations and information necessary for our audit.

We believe that the audit evidence we have obtained provides a reasonable basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the group's net worth and consolidated financial position as at 31 December 2011 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Additional comment

The preparation of the management report on the consolidated financial statements and its content are the responsibility of the board of directors.

Our responsibility is to supplement our report with the following additional comment, which does not modify our audit opinion on the financial statements:

- The management report on the consolidated financial statements includes the information required by law and is consistent with the consolidated financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the group is facing, and on its financial situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information that we became aware of during the performance of our mandate.

Kontich, 30 March 2012

KPMG Réviseurs d'Entreprises
Statutory Auditor
represented by

Sophie Brabants
Réviseur d'Entreprises / Bedrijfsrevisor

Condensed financial statements of Kinepolis Group NV

The following information is an extract from the unconsolidated financial statements of Kinepolis Group NV, drawn up in accordance with Belgian accounting principles. These unconsolidated financial statements, together with the Board of Directors' report to the General Shareholders' Meeting and the Auditor's report, will be filed with the National Bank of Belgium within the legal deadline. It should be noted that only the consolidated financial statements as presented above give a true and fair view of the financial position and performance of Kinepolis Group NV.

Given that Kinepolis Group NV is essentially a holding company that accounts for its investments at cost in its unconsolidated statements, these separate financial statements give only a limited view of the financial position of Kinepolis Group NV. For these reasons the Board of Directors has deemed it appropriate to present only a condensed unconsolidated balance sheet and income statement, prepared according to Belgian accounting principles for the year ending 31 December 2011.

The statutory auditor's report on these statements is unqualified and confirms that the unconsolidated financial statements of Kinepolis Group NV, prepared in accordance with Belgian accounting principles for the year ending 31 December 2011, give a true and fair view of the financial position of Kinepolis Group NV in accordance with all legal and regulatory provisions.

These unconsolidated financial statements of Kinepolis Group NV can be obtained free of charge from the website of Nationale Bank van België (www.nbb.be), in section 'Balanscentrale', subsection 'Jaarrekeningen opzoeken', can be read at www.kinepolis.com or requested free of charge from Investor Relations.

Condensed unconsolidated balance sheet of Kinepolis Group NV

IN '000 €	2010	2011
Non-current assets	**154 830**	**154 978**
Intangible assets	1 820	1 726
Property, plant and equipment	10 773	11 015
Financial fixed assets	142 237	142 237
Current assets	**42 432**	**15 590**
TOTAL ASSETS	**197 262**	**170 568**
Equity	**101 724**	**50 560**
Issued capital	48 963	18 952
Share premium	1 154	1 154
Legal reserve	4 896	4 896
Unavailable reserves	6 973	8 289
Available reserves	2 849	4 049
Profit carried forward	36 889	13 220
Provisions and deferred taxes	**362**	**842**
Non-current loans and borrowings	**57 437**	**43 479**
Current loans and borrowings	**35 892**	**73 445**
Accrued charges and deferred income	**1 847**	**2 242**
TOTAL EQUITY AND LIABILITIES	**197 262**	**170 568**

Condensed unconsolidated income statement of Kinepolis Group NV

IN '000 €	2010	2011
Operating income	25 631	32 484
Operating expenses	-20 865	-26 141
OPERATING PROFIT	**4 766**	**6 343**
Financial result	33 825	2 728
Extraordinary result	-3	-519
Current tax expenses		
GAIN/(LOSS) FROM THE FINANCIAL YEAR FOR APPROPRIATION	**38 588**	**8 552**

Profit appropriation of Kinepolis Group NV

IN '000€	2010	2011
Gain/(loss) from the financial year for appropriation	38 588	8 552
Profit carried forward from previous year	7 167	36 889
Addition to equity:	482	21 645
- To the legal reserve	482	
- To other reserves		21 645
Profit to be carried forward	36 890	13 220
Dividend	8 383	10 576

Mandates and remuneration of the Statutory Auditor at Kinepolis Group NV

The remuneration of the statutory auditor was € 152 987 for 2011 (2010: € 147 420). In addition to this remuneration, during the fiscal year the statutory auditor charged € 37 295 for non-auditing assignments (2010: € 22 190 for other auditing assignments and € 12 213 for non-auditing assignments). Persons with whom the statutory auditor has a professional relationship charged Kinepolis Group NV € 8 000 (2010: € 138 000) for other non-auditing assignments and € 26 470 (2010: € 53 000) for tax advice.

Glossary

Gross profit
Revenue - Cost of sales

Operating profit (EBIT)
Gross profit - distribution expenses - administrative expenses +/- other operating income and charges

Current operating profit (REBIT)
Operating profit after eliminating non-current transactions

EBITDA
Operating profit + depreciations + amortizations + impairments + movements in provisions

REBITDA
EBITDA after elimination of non-current transactions

Effective tax rate
Income tax expense / profit before tax

Current profit
Profit for the period after elimination of non-current transactions

Profit for the period, share of the Group
Profit for the period attributable to owners of the Company

Basic earnings per share
Profit for the period, share of the Group / (average number of outstanding shares - average number of treasury shares)

Diluted earnings per share
Profit for the period, share of the Group / (average number of outstanding shares - average number of treasury shares + number of possible new shares that must be issued under the existing share option plans x dilution effect of the share option plans)

Investments
Capitalized investments in intangible assets, property, plant and equipment and investment property

Net financial debt
Financial debt after deduction of cash and cash equivalents and tax shelter investments

ROCE (Return on capital employed)
REBIT / (average non-current assets - average deferred tax assets + average assets held for sale + average trade receivables + average inventory - average trade payables)

Current ratio
Current assets / current liabilities

Free cash flow
Cash flow from operating activities - maintenance investments in intangible assets, property, plant and equipment and investment property - interest paid + proceeds from the sale of intangible assets, property, plant and equipment and financial assets

Financial calendar

Tuesday **15** **May 2012** --- PUBLICATION BUSINESS UPDATE Q1 2012 ---	Friday **18** **May 2012** --- GENERAL MEETING KINEPOLIS GROUP NV ---
Thursday **23** **August 2012** --- PUBLICATION H1 2012 RESULT PRESENTATION TO PRESS AND ANALYSTS ---	Wednesday **14** **November 2012** --- PUBLICATION BUSINESS UPDATE Q3 2012 ---

These data are subject to change. For updates to the financial calendar, please check the Kinepolis website.

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