



## **Statutory auditor's report to the general meeting Kinopolis Group NV on the annual accounts as of and for the year ended 31 December 2017**

### **FREE TRANSLATION OF UNQUALIFIED STATUTORY AUDITOR'S REPORT ORIGINALLY PREPARED IN DUTCH**

In the context of the statutory audit of the annual accounts of Kinopolis Group NV ("the Company"), we provide you with our statutory auditor's report. This includes our report on the audit of the annual accounts for the year ended 31 December 2017, as well as our report on other legal, regulatory and professional requirements. These reports are one and indivisible.

We were appointed as statutory auditor by the general meeting of 11 May 2016, in accordance with the proposal of the board of directors issued on the recommendation of the audit committee and as presented by the workers' council. Our mandate will expire on the date of the general meeting deliberating on the annual accounts for the year ended 31 December 2018. We have not been able to identify the exact date of our initial appointment. However, we can confirm that we have performed the statutory audit of the annual accounts of Kinopolis Group NV for at least 20 consecutive financial years.

### **Report on the audit of the annual accounts**

#### ***Unqualified opinion***

We have audited the annual accounts of the Company as of and for the year ended 31 December 2017, prepared in accordance with the financial reporting framework applicable in Belgium. These annual accounts comprise the balance sheet as at 31 December 2017, the income statement for the year then ended and notes. The balance sheet total amounts to EUR 446.519.574 and the income statement shows a profit for the year of EUR 26.235.413.

In our opinion, the annual accounts give a true and fair view of the Company's equity and financial position as at 31 December 2017 and of its financial performance for the year then ended in accordance with the financial reporting framework applicable in Belgium.

#### ***Basis for our unqualified opinion***

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Statutory auditors' responsibility for the audit of the annual accounts" section of our report. We have complied with the ethical requirements that are relevant to our audit of the annual accounts in Belgium, including the independence requirements.

We have obtained from the board of directors and the Company's officials the explanations and information necessary for performing our audit.

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

### **Key audit matter**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### *Impairment of investments in subsidiaries*

We refer to notes 6.4.1 and 6.15 of the annual accounts.

#### — Description

The Company is the ultimate parent of the Kinepolis Group. In this capacity, it owns investments in subsidiaries, which are valued at historical cost, unless management assesses that a permanent impairment or devaluation exists. Based on Belgian accounting principles, investments in subsidiaries are subject to an annual impairment test in the framework of the preparation of the annual accounts.

Management applied the following approach to assess whether these investments in subsidiaries are subject to impairment:

The net book value of each investment is being compared to the proportion of net assets owned by the Company in the related subsidiary. To assess whether the impairment is permanent, management takes into account recent financial information of the subsidiary, budgeted future performances and, if applicable, other elements.

#### — This matter is a key audit matter because of:

- The significance of the balance (89,6% of total assets), and
- Management judgement involved in the assessment of the permanent nature of the impairment of the investments in subsidiaries.

#### — Our audit procedures

Amongst other things, we performed the following audit procedures:

- We have agreed key data used by management in its analysis, to underlying evidence, notably, the net asset position, the percentage of ownership and any other relevant financial information.
- When elements were identified for a possible permanent impairment or devaluation, we challenged key inputs and data used in the valuation model used by management, such as forecasted revenues, operating costs, maintenance capital expenditure, and respective weighted average cost of capital based on our knowledge of the business and the cinema industry. We assessed the Company's historical ability to forecast cash flows, and challenged the reasonableness of current forecasts given the future strategy of the Company and our understanding of the Company's past performance.
- We verified the mathematical accuracy of the discounted cash flow model.



- We performed sensitivity analyses on the respective weighted average cost of capital and the forecasted cash flows used by the Company to assess what change thereto would result in a different conclusion being reached, and assessing whether there were any indications of management bias in the selection of these assumptions.

***Board of directors' responsibilities for the preparation of the annual accounts***

The board of directors is responsible for the preparation of these annual accounts that give a true and fair view in accordance with the financial reporting framework applicable in Belgium, and for such internal control as board of directors determines, is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the board of directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

***Statutory auditor's responsibilities for the audit of the annual accounts***

Our objectives are to obtain reasonable assurance as to whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these annual accounts.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also perform the following procedures:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal controls relevant to the audit 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 Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by board of directors;



- Conclude on the appropriateness of board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

For the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## **Report on the other legal, regulatory and professional requirements**

### ***Responsibilities of the Board of Directors'***

The board of directors is responsible for the preparation and the content of the board of directors' annual report on the annual accounts, of the documents required to be filed in accordance with the legal and regulatory requirements, for maintaining the Company's accounting records in compliance with the applicable legal and regulatory requirements, as well as for the Company's compliance with the Companies' Code and the Company's articles of association.

### ***Statutory auditor's responsibilities***

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing as applicable in Belgium, our responsibility is to verify, in all material respects, the board of directors' annual report on the annual accounts, certain documents to be filed in accordance with legal and regulatory requirements and compliance with certain requirements of the Companies' Code and with the articles of association, and to report on these matters.

### ***Aspects concerning the board of directors' annual report on the annual accounts***

Based on specific work performed on the board of directors' annual report on the annual accounts, we are of the opinion that this report is consistent with the annual accounts for the same period and has been prepared in accordance with articles 95 and 96 of the Companies' Code.

In the context of our audit of the annual accounts, we are also responsible for considering, in particular based on the knowledge gained throughout the audit, whether the board of directors' annual report on the annual accounts contains material misstatements, that is information incorrectly stated or misleading. In the context of the procedures carried out, we did not identify any material misstatements that we have to report to you. We do not express any form of assurance on the board of directors' annual report on the annual accounts.

The non-financial information required by article 96 §4 of the Companies' Code has been included in the board of directors' annual report on the annual accounts. The Company has prepared this non-financial information based on ISO26000. However, we do not comment on whether this non-financial information has been prepared, in all material respects, in accordance with ISO26000. In addition, we do not express any form of assurance regarding the individual elements included in this non-financial information.

### ***Information regarding the social balance sheet***

The social balance sheet, which is to be filed with the National Bank of Belgium in accordance with article 100 § 1, 6°/2 of the Companies' Code, includes, with respect to form and content, the information required by law and does not present any material inconsistencies with the information available in our mandate.

### ***Information about the independence***

- Our audit firm and our network have not performed any engagement which is incompatible with the statutory audit of the annual accounts and our audit firm remained independent of the Company during the term of our mandate.
- The fees for the additional engagements which are compatible with the statutory audit of the annual accounts referred to in article 134 of the Companies' Code were correctly stated and disclosed in the notes to the annual accounts.

### ***Other aspects***

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium.
- The appropriation of results proposed to the general meeting complies with the legal provisions and the provisions of the articles of association.



- The Company has not complied with the provision of article 98 of the Companies' Code with respect to the filing of the 2016 annual accounts within 30 days after approval. There are no other transactions undertaken or decisions taken in breach of the Company's articles of association or the Companies' Code that we have to report to you.
- This report is consistent with our additional report to the audit committee on the basis of Article 11 of Regulation (EU) No 537/2014.
- In accordance with Article 523 of the Companies' Code, we are also required to report to you on the following transactions which have taken place in 2017:
  - Prior to the deliberation and resolution by the Board of Directors' meeting held on March 16, 2017 with respect to the decision regarding the press release on the decision of the Court of Appeal on the case of the alleged use of insider information for the share transactions by Executive Management and the chairman of the Board of Directors, Philip Ghekiere, Joost Bert and Eddy Duquenne, all directors of the Company, informed the Board of Directors that they had a conflict of interest. They did not participate in the deliberation or the resolution of this matter. Ultimately this decision had no financial consequences for the Company.
  - Prior to the deliberation and resolution by the Board of Directors' meeting held on March 20, 2017, with respect to the evaluation of the management objectives for 2016 for Executive Management and the allocation of the resulting variable remuneration, determination of the management objectives for 2017 and determination of the remuneration for Executive Management for the fiscal years 2017-2018, based on the proposal of the Nomination and Remuneration Committee, Joost Bert and Eddy Duquenne, both directors of the Company, informed the Board of Directors that they had a conflict of interest. They did not participate in the deliberation or the resolution of this matter.

As a result of the aforementioned transaction with regard to the evaluation of the management objectives for 2016 for Executive Management, the Company granted a variable remuneration to Joost Bert and Eddy Duquenne, which was charged to the income statement and which was granted based upon achieving the predetermined management objectives. The financial consequences for the Company amount to EUR 581.500.

As a result of the aforementioned transaction with regard to the determination of the management objectives for 2017, the Company will grant a variable remuneration to Joost Bert and Eddy Duquenne, which will be charged to the income statement and which will be granted when predetermined management objectives have been reached. The maximum possible financial consequences for the Company amount to EUR 620.000.



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As a result of the aforementioned transaction with regard to the determination of the remuneration for Executive Management for the fiscal years 2017-2018, the Company will grant a remuneration to Joost Bert and Eddy Duquenne, which will be charged to the income statement. The maximum possible financial consequences for the Company amount to EUR 1.527.085.

Antwerp, 30 March 2018

KPMG Bedrijfsrevisoren / Réviseurs d'Entreprises  
Statutory auditor  
represented by

Serge Cosijns  
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