



# Annual Report 2014

# Contents



Kinepolis Liège (BE)



Kinepolis Alicante (ES)



Kinepolis Madrid (ES)

## 01

### KEY FIGURES AND RATIOS

- 4 Key figures
- 5 Ratios

## 02

### ANNUAL SUMMARY

- 8 Word from the Chairman and CEO's
- 10 Kinepolis Group in brief



Kinepolis Dordrecht (NL)



Kinepolis Louvain (BE)



Kinepolis Bruges (BE)

# 03

## MANAGEMENT REPORT

- 22 Discussion of the results
- 26 Corporate governance statement
- 44 Other information
- 45 Declaration with regard to the information contained in this annual report

# 04

## SHARE INFORMATION

- 48 The Kinepolis Group share

# 05

## FINANCIAL REPORT

- 52 Consolidated financial statements
- 58 Notes to the consolidated financial statements
- 106 Statutory auditor's report
- 108 Condensed financial statements of Kinepolis Group NV
- 110 Glossary
- 111 Financial calendar 2015-2016

# 01



Construction on Kinepolis Dordrecht (NL) began in 2014

# Key figures and ratios



# Key figures and ratios

## KEY FIGURES

NUMBER OF COMPLEXES <sup>(1)</sup>	BELGIUM	FRANCE	SPAIN	THE NETHERLANDS	OTHER (POLAND & SWITZERLAND)	TOTAL
2014	12	7	5	9	2	35

VISITORS (MILLIONS) <sup>(2)</sup>	BELGIUM	FRANCE	SPAIN	THE NETHERLANDS	SWITZERLAND	TOTAL
2013	9.2	5.8	3.1		0.1	18.2
2014	9.0	6.2	3.6	0.8	0.1	19.7
2014 vs. 2013	-2.4%	6.6%	17.2%	-	-12.6%	8.0%

CONSOLIDATED INCOME STATEMENT (IN € '000)	2010	2011	2012	2013	2014
Revenue	239 170	253 704	254 505	245 980	262 619
EBITDA	67 996	74 562	72 252	75 006	71 303
REBITDA	66 512	71 673	74 001	74 634	74 264
Gross profit	67 019	79 639	82 221	82 111	81 843
Operating profit	45 185	53 341	51 673	55 069	50 665
Net finance expense	-5 153	-3 169	-5 859	-5 998	-4 295
Profit before tax	40 032	50 172	45 814	49 071	46 370
<b>Profit</b>	<b>28 062</b>	<b>36 471</b>	<b>35 704</b>	<b>37 541</b>	<b>35 167</b>
<b>Current profit</b>	<b>28 039</b>	<b>35 195</b>	<b>37 405</b>	<b>37 395</b>	<b>35 589</b>

ANNUAL GROWTH RATES	2010	2011	2012	2013	2014
Revenue	3.4%	6.1%	0.3%	-3.3%	6.8%
EBITDA	18.0%	9.7%	-3.1%	3.8%	-4.9%
REBITDA	14.5%	7.8%	3.2%	0.9%	-0.5%
Gross profit	13.2%	18.8%	3.2%	-0.1%	-0.3%
Operating profit	42.0%	18.1%	-3.1%	6.6%	-8.0%
<b>Profit</b>	<b>26.5%</b>	<b>30.0%</b>	<b>-2.1%</b>	<b>5.1%</b>	<b>-6.3%</b>
<b>Current profit</b>	<b>37.3%</b>	<b>25.5%</b>	<b>6.3%</b>	<b>0.0%</b>	<b>-4.8%</b>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IN '000 €)	2010	2011	2012	2013	2014
Non-current assets	281 856	272 139	261 868	255 239	302 068
Current assets	44 184	54 814	65 703	55 072	44 996
<b>TOTAL ASSETS</b>	<b>326 040</b>	<b>326 953</b>	<b>327 571</b>	<b>310 311</b>	<b>347 064</b>
Equity	157 318	133 942	108 668	104 657	104 732
Provisions and deferred tax liabilities	16 364	18 110	21 466	20 525	18 352
Non-current loans and borrowings	57 437	38 502	81 709	87 917	91 471
Current loans and borrowings and bank overdrafts	22 363	56 020	37 731	19 332	44 095
Trade and other payables	65 680	72 649	72 949	70 487	79 651
Other	6 878	7 730	5 048	7 393	8 763
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>326 040</b>	<b>326 953</b>	<b>327 571</b>	<b>310 311</b>	<b>347 064</b>

(1) Including Cinema City Poznań (Poland), operated by ITIT, and UGC Toison d'Or (Belgium), operated by UGC.  
(2) Excluding Cinema City Poznań (Poland) and UGC Toison d'Or (Belgium).

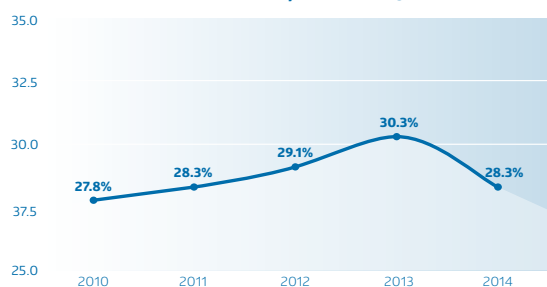
DATA PER SHARE <sup>(3)(4)</sup>	2010	2011	2012	2013	2014
Revenue	7.19	7.75	8.77	9.06	9.99
EBITDA	2.04	2.28	2.49	2.76	2.71
Profit	0.84	1.11	1.23	1.38	1.34
Current profit	0.84	1.07	1.29	1.38	1.35
Equity share of the Group	4.68	4.03	3.75	3.85	3.89
Gross dividend <sup>(5)</sup>	1.26	1.80	2.36	3.19	0.89
Pay-out ratio	30%	30%	35%	45%	50%

## RATIOS

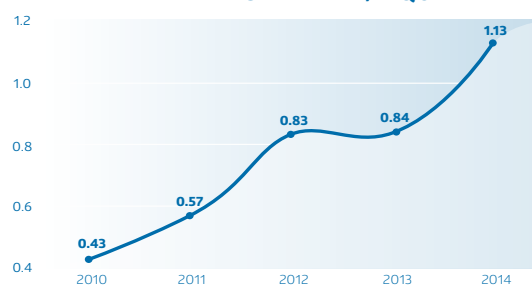
PROFITABILITY RATIOS	2010	2011	2012	2013	2014
EBITDA / Revenue	28.4%	29.4%	28.4%	30.5%	27.2%
REBITDA / Revenue	27.8%	28.3%	29.1%	30.3%	28.3%
Gross profit / Revenue	28.0%	31.4%	32.3%	33.4%	31.2%
Operating profit / Revenue	18.9%	21.0%	20.3%	22.4%	19.3%
Profit / Revenue	11.7%	14.4%	14.0%	15.3%	13.4%

FINANCIAL STRUCTURE RATIOS	2010	2011	2012	2013	2014
Net financial debt	66 956	76 501	90 200	88 141	118 645
Net financial debt / EBITDA	0.98	1.03	1.25	1.18	1.66
Net financial debt / Equity	0.43	0.57	0.83	0.84	1.13
Equity / Total equity and liabilities	48.3%	41.0%	33.2%	33.7%	30.2%
Current Ratio	0.53	0.43	0.61	0.62	0.36
ROCE	16.0%	19.8%	21.8%	22.9%	20.9%

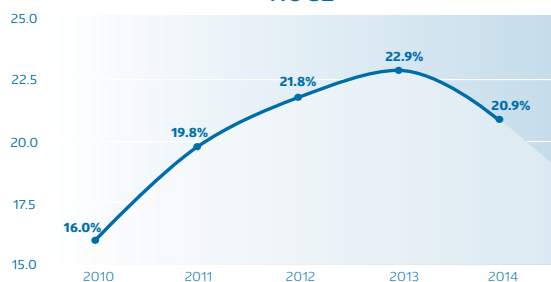
REBITDA / REVENUE



NET FINANCIAL DEBT / EQUITY



ROCE



CURRENT RATIO



(3) Calculation based on the weighted average number of shares for the relevant period, multiplied by five for the periods 2010 up to 2013, to take into account the share split in 2014 and allowing the comparison of data.

(4) In 2014 the data per share take into account the share split into five as from 1 July 2014.

(5) Calculation based on the number of dividend eligible shares. In 2014 the calculation is based on the number of dividend eligible shares on the date of this report.

# 02



Exodus premiere, Kinepolis Madrid (ES)





# Annual summary

# Word from the Chairman and CEO's



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

Ladies and Gentlemen,  
dear shareholder, customer and employee,

Our efforts to allow the further growth of Kinopolis in 2014 and pursue an active expansion strategy have paid off. In terms of operations, our Group performed significantly better than the year before.

The number of visitors, an important measure of the success of Kinopolis, rose by 8% to 19.7 million. This significant increase was supported by our geographical expansion in the Netherlands and Spain, and came in spite of competition from the World Cup Football. Moreover, the World Cup did also have a negative impact on advertising spend and our B2B activities in general.

The higher visitor figure drove an increase in revenue, which at € 262.6 million were some 6.8% higher than in 2013. There was a rising trend in all our operating activities except for the B2B segment.

Total revenue of Brightfish rose due to higher revenue from events, whereas lower screen advertising revenue was generated.

Current EBITDA (€ 74.3 million) was stable compared with 2013. The Group's further operational efficiency has had a favorable impact on the gross margins, which largely offset the negative impact of lower revenue from screen advertising and film distribution.

Current profit for the period was € 35.6 million, compared to € 37.4 million in 2013. The decrease was primarily due to the higher depreciations and the higher effective tax rate (24.2% in 2014), which could not be completely offset by the lower interest charges.

The Board of Directors will propose to the General Meeting of 13 May 2015 a pay-out ratio of 50% of the current profit, which corresponds to a gross dividend of € 0.69 per share<sup>(1)</sup>. This is a rise of 8.2% compared to 2013 due to the buyback and cancellation of treasury shares. The Board will also propose to the General Meeting the payment of an exceptional dividend of € 0.20 per share<sup>(1)</sup>.

On the field, the rollout of the expansion program continues. After Kinopolis acquired control of two additional cinemas in Spain and the group Wolff Bioscopen in the Netherlands in 2014, a number of new investments are scheduled in 2015. The Dutch new-build projects in Dordrecht, Breda and Utrecht, and the French project in Brétigny-sur-Orge, close to Paris, especially catch the eye.

Kinopolis continues to blaze a trail in experience and innovation, too. On the one hand, we constantly work to improve the comfort in our theaters, for example with cosy seating. On the other hand, our Group has taken a big step forward with the introduction of "Laser Ultra by Kinopolis", a revolutionary development in sound and projection quality based on a successful partnership with Barco and Dolby.

Meanwhile, the Hollywood line-up for 2015 looks very promising, with films such as "Fifty Shades of Grey", "Star Wars: Episode VII - The Force Awakens", "James Bond - Spectre" and "The Hunger Games: Mockingjay - part 2". Together with the further implementation of our expansion strategy, the unique Kinopolis experience in our cinemas will surely contribute to new phases in the development of our Group.

Kinopolis is fully aware that these ambitious goals cannot be achieved without the commitment of her employees, film lovers, suppliers and all other stakeholders. We would like to thank each and every one of them for the confidence they have shown in Kinopolis.



Global Achievement Award in Exhibition 2014

Eddy Duquenne  
CEO Kinopolis Group

Joost Bert  
CEO Kinopolis Group

Philip Ghekiere  
Chairman of the Board of Directors

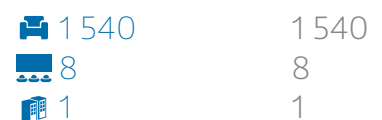
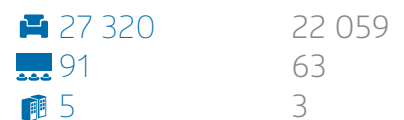
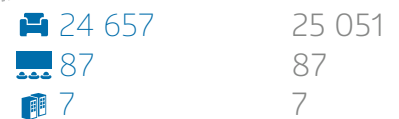
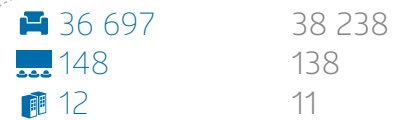
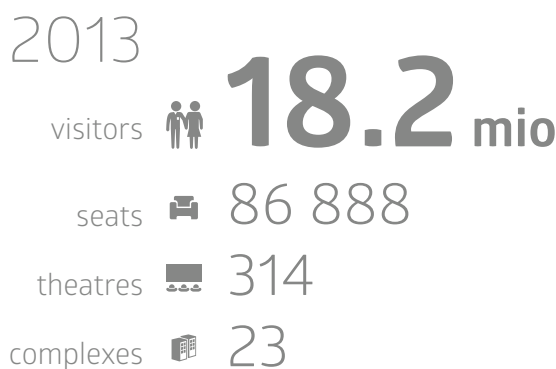
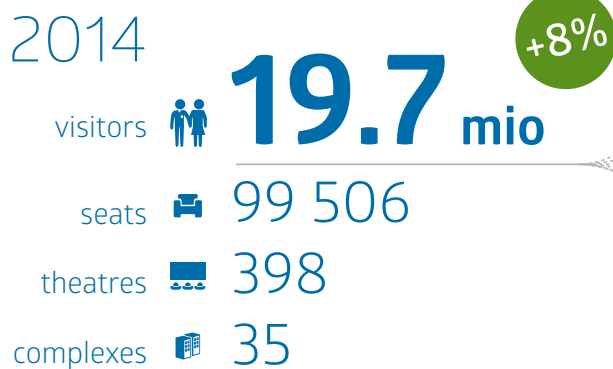
*(1) Based on the number of shares entitled to dividend at the date of approval of this annual report by the Board of Directors (23 March 2015).*

# Kinepolis Group in brief

Kinepolis Group was formed through the merger of two cinema groups and has been listed since 1998. Kinepolis Group stands for an innovative cinema concept, a blueprint for the industry.

At the end of 2014 Kinepolis had 35 cinema complexes in Belgium, France, Spain, the Netherlands, Switzerland and Poland. In addition to its cinema operations, the Group is also active in film distribution, event organization, screen advertising and property management.

2 100 employees devote themselves to ensuring that millions of cinema-goers have an unforgettable experience.



# Kinepolis in Europe<sup>(1)</sup>



## Belgium

- Antwerp
- Bruges
- Brussels (x2)<sup>(2)</sup>
- Ghent
- Hasselt
- Braine l'Alleud
- Kortrijk
- Louvain
- Liège (x2)
- Ostend

## France

- Lomme
- Mulhouse
- Nancy
- Nîmes (x2)
- St-Julien-lès-Metz
- Thionville

## Spain

- Alicante
- Madrid (x2)
- Granada
- Valencia

## The Netherlands

- Enschede (x2)
- Groningen
- Huizen
- Nieuwegein
- Rotterdam
- Utrecht (x3)

## Switzerland

- Schaffhausen

## Poland

- Poznań<sup>(3)</sup>

(1) Part of the property portfolio as of 31/12/2014, and used for the cinema business or otherwise.  
(2) 1 of the complexes is operated by UGC, therefore the number of visitors and seats are not included in the totals.  
(3) Operated by ITIT, therefore the number of visitors and seats are not included in the totals.

## INNOVATION

The Kinopolis concept is characterized by constant innovation and customer focus. Kinopolis sets trends. At technology level, this has led to the full digitization at a fast pace, seat reservations, the latest projection and sound technologies (laser projection, multidimensional sound), cosy seating (roomy seats with small table and folding armrests), mobile ticketing, innovative marketing and trend-setting events. As regards content, a permanent offering of sporting, cultural and social events complements the traditional film program. In addition to innovations to enhance the film experience, Kinopolis also works hard to improve the pre- and post-film experience, and constantly designs new shop and interior concepts.



Cosy seating: roomy seats with little table and foldable armrest



"Now you see me" premiere: Kinopolis Hasselt (BE) and Kinopolis Brussel (BE) treat visitors to a money shower.

## OUR MISSION AND STRATEGY

Kinopolis wants to give film and culture lovers a unique experience. It puts together a personalized program for diverse target groups. Kinopolis wants to create sustainable value for film lovers, employees, shareholders, partners and the community. To this end, the three pillars of its strategic model are integrated into the principles of sustainable enterprise.



**Kinopolis wants to be the best marketer**



**Kinopolis wants to be the best cinema operator**



**Kinopolis wants to be the best real estate manager**

## OUR ORGANIZATION

The structure of Kinopolis is tailored to its geographic markets and is characterized by a flat organization in which decisions can be taken quickly. The organization is supported by five operating entities: cinema operations, real estate, Kinopolis Film Distribution (KFD), Brightfish for screen advertising and Digital Cinema Services for technological support.

## GENERAL MARKET INFORMATION <sup>(1)</sup>

In Europe the visitor number increased by 1.3% in 2014 compared to the previous year. Western Europe (18 countries) remained fairly stable with 829.8 million visitors in 2014, compared to 831.2 million visitors in 2013. In Eastern and Central Europe and the Mediterranean Rim (15 countries) total visitor number increased from 320.7 million in 2013 to 337.4 million in 2014.

<sup>(1)</sup> Source: Mediasalles – European Cinema Yearbook 2014



Our HR motto: "Plus est en Nous."

The countries with the biggest rise in visitor number in 2014 were Lithuania (+37.5%) and Serbia (+24.8%). The countries with the greatest fall in 2014 compared to 2013 were Croatia (-7%), Luxembourg (-6.5%) and Norway (-6.1%).

The leading cinema groups in Europe have a 13.9% share of the European market, with 5 821 screens. Odeon/UCI Cinemas Group has 5.3%, followed by Cineworld/Cinemacity (consolidated since January 2014) at 4.4% and Vue Entertainment at 4.1%.

## OUR PEOPLE

The unique film experience that Kinepolis Group promises demands the full commitment and talent of our people. Kinepolis wants to be a self-learning organization with room for initiative and personal development. We aspire to be the employer who gets the best out of each employee. With that in mind, our motto is "Plus est en nous". The establishment of a "Talent Factory" helps Kinepolis to identify talent at all times; the "Kinepolis Academy" program hones the personal skills of the Kinepolis employees.



At Kinopolis the goal is to optimize the customer experience even more.

### OUR CORE BUSINESSES

Kinopolis develops a wide range of activities. The six core businesses of Kinopolis Group are box office, in-theatre sales (ITS), business-to-business (B2B), film distribution, screen advertising and real estate.

### BOX OFFICE

Box office ensues from the sale of cinema tickets.

The number of visitors is decisive here and is highly dependent on a number of key factors, including content, the weather conditions and holiday periods.

Kinopolis constantly optimizes visitor numbers in its multiplexes and megaplexes. Through its wide offering of films it reaches diverse groups of film and culture lovers.

Kinopolis continues to surprise its audience with its program. Kinopolis looks to identify customer preferences through the employment of an effective, innovative relationship marketing system. At Kinopolis the goal is to optimize the customer experience even more and this is partly driven by online and mobile services. Customers showed their appreciation for continuing investments in customer experience, such as digitization, infrastructure and self-service. The Group targets the highest quality standard when it comes to facilities, comfort, organization and technology, which has resulted in some striking innovations in recent years.





Passbook tickets



Reserve a numbered seat



Choosing a film on a smartphone



Mobile ticketing

### IN-THEATRE SALES (ITS)

In-theatre sales (ITS) comprises all revenue from the sale of beverages, snacks and merchandising in the complexes. Far-reaching measures in terms of facilities, sales concepts and product offering have pushed up revenue in this area in recent years.

Most of our complexes now have their own large Mega Candy self-service shop, a decisive factor in the increasing success of ITS. This concept has been supplemented by specific local initiatives in some countries. One of them is the coffee corner, which has acquired a prominent place in all Kinopolis complexes in France. In addition to the extensive film offering, which is especially designed to appeal to different target groups, an extensive range of food and beverages is offered to meet the tastes of each of those groups.

The "Leonidas Chocolates Café" opened at Kinopolis Antwerp (Belgium) in February 2015. Here, visitors can enjoy the famous Belgian chocolates, as well as hot and cold beverages. The chocolate café is the ideal place to meet up before the film, or talk about it after the final credits have rolled.

It is an excellent addition to the existing snack options at Kinopolis, fitting in perfectly with the Kinopolis philosophy. Kinopolis wants to turn every visit into a unique experience. Kinopolis had already opened a soft ice-cream shop at its Antwerp megaplex that goes by the name "Ola Happiness Station", where customers can create their own soft ice-cream swirl with their favorite toppings.



Leonidas Chocolates Café, Kinopolis Antwerp (BE)



B2B Event

#### **BUSINESS-TO-BUSINESS (B2B)**

Business-to-business (B2B) revenue is generated through privileged relationships and partnerships with the business world. The range of products and services is continually refreshed and diversified. B2B revenue is independent from film ticket sales. Digitization has transformed cinemas into multi-media theaters, an innovative channel for business. Digital projectors, tailored conferencing infrastructure and service, more energetic prospecting, intensive media campaigns and successful partnerships make Kinopolis complexes ideal B2B locations. Kinopolis makes its professional facilities available for conferences, film premieres, corporate events and staff parties. B2B teams work to promote event and cinema voucher sale with intensive campaigns. The cinema is also the perfect location for specific publicity campaigns to promote corporate brands. Screen advertising, sampling, digital screens in the foyers and advertising panels also play their part in that.

#### **FILM DISTRIBUTION**

Kinopolis Film Distribution (KFD) focuses on distributing international and domestic films in Belgium and Luxembourg. As a specialist in Flemish movies KFD has earned a strong position in Belgium.

Through KFD Kinopolis, as a media company, supports the Flemish film industry.

#### **SCREEN ADVERTISING**

With the acquisition of advertising agency Brightfish at the end of 2011, Kinopolis launched a new core business in Belgium. The transaction triggered a consolidation on the Belgian screen advertising market. At the same time, Kinopolis ensured that the Belgian cinema industry once again had a stable partner for screen advertising.

## REAL ESTATE

Real Estate is a separate business unit tasked with coordinating the Group's property management and utilization. Kinopolis owns the vast majority of its real estate, a situation that sets it apart from many other cinema operators. At year's end 2014 Kinopolis had a portfolio of 35 complexes, comprising 398 screens and 99 506 seats. Over 57 000 m<sup>2</sup> is let to third parties. Footfall at these businesses (mostly shops and cafes) is often generated by the attraction of the Kinopolis complex.

In July 2014 Kinopolis opened "The Magic Forest" at Kinopolis Madrid (Spain). "The Magic Forest" is an indoor playground covering 1 000 m<sup>2</sup>. Up to 350 children can enjoy a magical play experience, with or without a film. In the meantime, parents and childminders can go to the film or relax with something to eat or drink in "The Magic Forest Lounge", which seats 300. "The Magic Forest" is also the ideal venue for birthday parties with animation.

The opening of the "Leonidas Chocolates Café" in Kinopolis Antwerp (Belgium) in February 2015 is another recent realization.

In the summer of 2014 Kinopolis acquired the premises in Galerie Toison d'Or (Avenue de la Toison d'Or 8) in Brussels (Belgium), which are leased to UGC. The purchase of the building, which is at a top location that is now being developed, is a great opportunity for Kinopolis that fits in with its real estate strategy. Through the aforementioned transaction Kinopolis takes the place of the seller (former real estate owner) and takes on its rights and obligations. That means that Kinopolis does not acquire any control over the operation of the cinema.



"The Magic Forest" in Madrid (ES)

# 2014 was a year characterized by expansion.

## OUR EXPANSION

For Kinopolis, 2014 was a year characterized by expansion. Kinopolis entered the Dutch market, grew in Spain and announced various new-build projects. In the course of the year investments were also made in strengthening the organization as part of the Group expansion. Kinopolis wants to introduce its concept in new markets and for new target groups to help create additional value for all stakeholders.

## Spain

In the spring of 2014 Kinopolis acquired control of Abaco Cinebox (Alicante) and Abaco Alcobendas (Madrid), the two largest cinemas of the former Spanish cinema group Abaco Cinebox. Agreement was reached with the liquidators on the sale of the two multiplexes.

## The Netherlands

Kinopolis entered the Dutch market for the first time in July 2014 through the acquisition of the group Wolff Bioscopen. In the deal, Kinopolis acquired cinemas in Huizen, Groningen, Enschede (two sites), Rotterdam, Nieuwegein and Utrecht (three sites), as well as new-build projects in Dordrecht and Utrecht. Wolff Bioscopen is also active as a film programmer and purchasing center for third party cinemas, a business that Kinopolis has also acquired. Construction has started in Dordrecht (6 screens). Kinopolis itself has developed the project in Breda (10 screens), which is the third new-build project in the Netherlands. The existing multiplexes together with the three ongoing new-build projects are expected to enable Kinopolis to attract between 3 and 3.5 million visitors in three years' time, largely in multiplexes housed in property controlled by the Group.

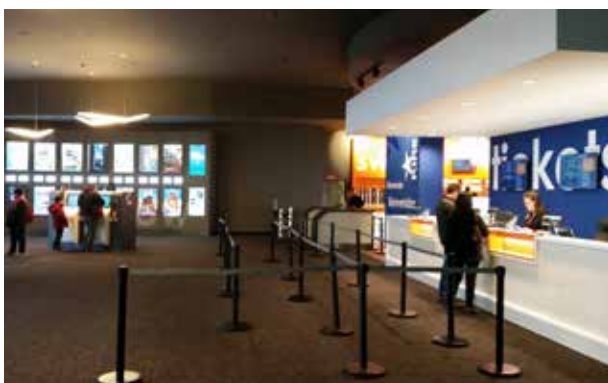
Wolff Camera in Utrecht (2 screens) closed in March 2015. This was a scheduled closure as part of the construction project in Utrecht (14 screens), although it was brought forward due to the redevelopment of the site. This possibility was taken into account in the acquisition agreement.

## France

In 2015 Kinopolis Group will build a 10-screen multiplex in Brétigny-sur-Orge, 35 kilometers south of Paris. The development is part of the new "Les Promenades de Brétigny" shopping centre. Project developer Immochan began construction in February 2015 and will lease a windproof building with 6 500 m<sup>2</sup> in floor space to Kinopolis.



Kinopolis Mulhouse (FR)



Kinopolis Alcobendas, Madrid (ES) after remodelling

The interiors and refurbishing will be paid for by Kinopolis alone. Once it is operating at full speed, around 500 000 visitors per year are expected.

### **GREEN STAR, OUR SUSTAINABLE BUSINESS PROJECT**

Within a broader social context, Kinopolis prioritizes the potential ecological, cultural or social consequences of its operations. As a sustainable enterprise, the Group is committed to taking its overall social role and the potential impact on all stakeholders seriously. The Kinopolis sustainable business project is known as "Green Star".

Green Star, in all its facets, carries increasing weight in the daily decision processes and operational management.

When designing or renovating cinema complexes, Kinopolis monitors not only the comfort of all social target groups but also the green character of its buildings. Kinopolis does this through construction materials and applications that limit the ecological footprint.

A unique film experience is not possible without a unique employee experience: as an employer, Kinopolis wants to get the best out of every employee. For the development of Green Star, the interaction with employees is essential.

A milestone in the sustainability policy was the digitization of the projection systems, which made the chemical production of film and the transport of voluminous rolls of film superfluous. The breakthrough in online transactions also results in greener operations, now that Smartphone users are able to retrieve their tickets digitally. Various measures have helped drive down the consumption of electricity and gas. Waste flows and water consumption are reduced and better channelled.



3D cross section of Kinopolis Dordrecht (NL)



Kinopolis Breda (NL)

All social target groups get constant attention in cinema programming and conceptualization. Kinopolis expresses its social engagement in its film programming and through various social projects.

Under Green Star, in 2014 Kinopolis worked on a new waste sorting program and participated once again in the worldwide "Safer Internet Day" project and "Wings for Life" for paraplegia research. Social comfort and ecology were given particular attention in the design phase of the new-build projects in the Netherlands and France and renovation projects in various countries.



Sketch of Kinepolis Utrecht (NL)



# Management Report

# Discussion of the Results

2014 was a year characterized by expansion. Kinopolis entered the Dutch market, grew in Spain and announced various new-build projects. In the course of the year investments were also made in strengthening the organization as part of the Group's expansion.

Kinopolis welcomed 19.7 million visitors in 2014, a rise of 8.0% compared to 2013. This increase was thanks to the acquisition of cinemas in the Netherlands and Spain and a good local film offer in France and Spain. The warm weather in June and in the autumn in Belgium and France, together with the World Cup Football, as anticipated, had a negative impact on the visitor numbers. The higher visitor numbers led to an increase in total revenue by 6.8%. The core activities box office and in-theatre sales performed strongly. Spain's larger share and the sectorial price campaigns in France and Spain had a negative impact on the revenue per visitor. Total revenue of Brightfish rose due to higher revenue from events, whereas lower screen advertising revenue was generated. Film distribution and real estate revenue increased. Business-to-business revenue fell, due to the lower screen advertising revenue and fewer corporate events as a consequence of the World Cup Football.

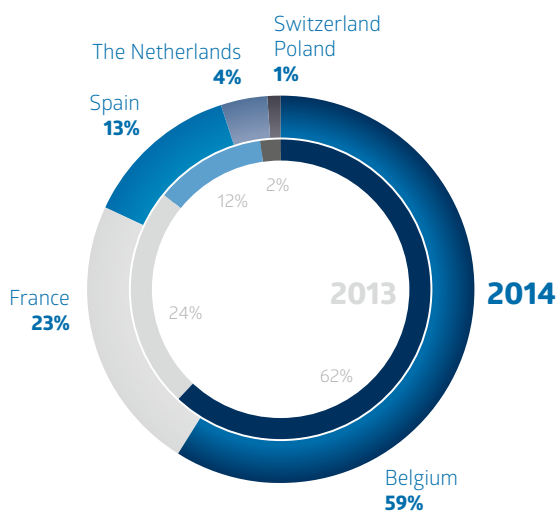
## REVENUE

Turnover was € 262.6 million, an increase of 6.8% compared to 2013. Revenue did not increase in line with the number of visitors due to Spain's larger share of in the total visitor number and the decrease in revenue from screen advertising, partly offset by the increased revenue of advertising agency Brightfish and film distribution as well as higher real estate revenue. Revenue from ticket sales (box office) increased by 6.8%. Revenue from food, beverages and retail (in-theatre sales) rose by 7.7%.

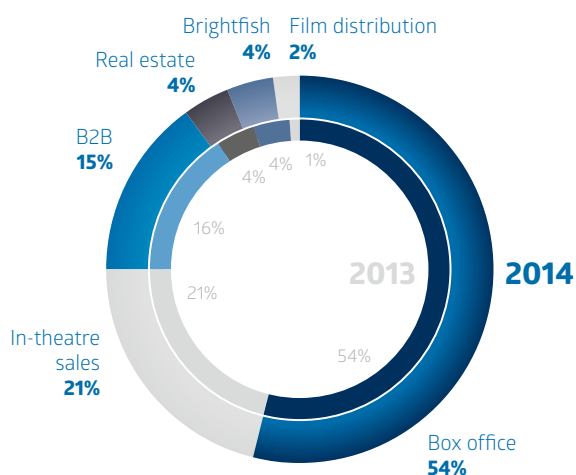
Revenue can be broken down as follows:

**Box office** revenue was € 140.9 million, a rise of 6.8% compared to 2013. This increase was driven by the expansion in the Netherlands and Spain, offset by lower sales of 3D tickets and glasses and lower virtual print fee (VPF) revenue. There was a slight drop (-1.1%) per visitor as a consequence of Belgium's lower share and Spain's higher share in total box office revenue. Per visitor revenue was also negatively impacted by the "Cine Miercoles" campaign in Spain, with across-the-board ticket price reductions on Wednesdays, and "Actions jeunes" in France, a campaign offering discounts on film tickets to the under 14s.

Revenue by country in 2014 vs. 2013



Revenue by activity in 2014 vs. 2013







Rio 2 (2014)

## Kinepolis welcomed 19.7 million visitors in 2014, a rise of 8.0% compared to 2013.

This was largely offset by France's lower share in total box office revenue and the addition of the Netherlands, where box office revenue per visitor is higher than the Group's average.

Box office revenue rose less sharply than the visitor number, due to the above. Kinepolis welcomed 19.7 million visitors in 2014, a rise of 8.0% compared to 2013.

The increase in the number of visitors was, among other things, due to the mild winter weather and the good international and local film offer in the first quarter. In France and Spain local films continued to be successful in the second quarter. Spanish visitor number was also positively impacted by the acquisition of two cinemas in Alicante and Madrid in April and June. The fine summer weather in Belgium and France had a negative impact on the visitor number, as did the World Cup Football in June, which caused many distributors to delay their biggest films. The visitor number increased as from the third quarter with the addition of the Netherlands to the existing portfolio of cinemas and good local films in Spain. The warm autumn, however, resulted in fewer visitors in Belgium and France.

The top 5 films in 2014 were "The Hobbit: The Battle of the Five Armies", "The Hunger Games: Mockingjay – part 1", "Qu'est-ce qu'on a fait au Bon Dieu?", "Lucy" and "Dawn of the Planet of the Apes".

The most successful local films were: "Qu'est-ce qu'on a fait au Bon Dieu?" and "Supercondriaque" in France and "Ocho Apellidos Vascos", "El Nino" and "Torrente 5" in Spain. "FC De Kampioenen" and "K3 Dierenhotel" were the Flemish films that attracted most visitors in 2014.

2015 opened strongly with "Fifty Shades of Grey". Other hits in the making in 2015 are "Insurgent", "Fast and Furious 7", "Avengers: Age of Ultron",

"Jurassic World", "Minions", "The Fantastic Four", "James Bond – Spectre", "The Hunger Games: Mockingjay – part 2" and "Star Wars: Episode VII – The Force Awakens". The program is enriched with various local productions, such as the Flemish films "FC De Kampioenen 2", "Safety First" and "Belgica", the Dutch films "Michiel De Ruyter", "Bloed, Zweet en Tranen" and "De Toppers, Lost in Vegas", the French films "Bis", "Babysitting 2" and "Belle et Sébastien: l'Aventure Continue", and the Spanish films "Ahora O Nunca" and "Regression". Live opera and ballet are supplemented with "Art in the Cinema".

**In-theatre sales (ITS)** increased by 7.7% to € 55.9 million, due to the expansion in the Netherlands and in Spain, as well as higher sales in France. ITS per visitor were stable (-0.3%). "Cine Miercoles" in Spain and "Action Jeunes" in France also had an impact here, as these campaigns attract a different type of visitors who consume less. The acquisition of two cinemas in Spain, where ITS per visitor are lower than the Group's average, also had a negative effect on revenue per visitor. However, this was largely offset by the addition of the Netherlands, where ITS per visitor are higher than the Group's average.

**Business-to-business (B2B)** revenue decreased by 0.8% to € 38.6 million. This was primarily due to the low revenue from screen advertising in Belgium and France, and fewer corporate events. Due to the World Cup Football, advertising budgets were spent differently. The screen advertising activity was also



Lucy (2014)



The Hobbit: The Battle of the Five Armies (2014)



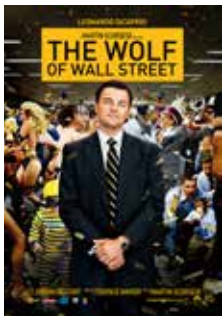
The Hunger Games: Mockingjay – part 1 (2014)



De Behandeling (2014)



Marina (2013)



The Wolf of Wall Street (2013)

impacted by the downward pressure on prices from other media channels. The reduction was largely offset by the higher revenue from the sale of cinema vouchers to companies and media campaigns with partners. B2B activities of the acquired cinemas in the Netherlands and Spain made a first positive contribution.

**Real estate** revenue rose by 10.4% (+10.3% at constant exchange rates) to € 9.6 million. Among other things, this increase was driven by the lease of the Toison d'Or cinema building in Brussels (Belgium). The expansion in the Netherlands and the indoor playground that was opened in Madrid (Spain) also contributed, as did higher revenue from the lease of commercial spaces.

**Film distribution** revenue increased to € 4.9 million. In 2014 KFD distributed films such as "The Wolf of Wall Street", "K3 Dierenhotel", "De Behandeling", "Marina", "Sinterklaas en het Pratende Paard", "The Loft", "Homefront" and "Halfweg". Revenue from video-on-demand and DVD distribution also increased. Due to some less successful productions, the results 2014 were negatively impacted by KFD.

**Brightfish** generated less screen advertising revenue than in 2013, as a consequence of lower national advertising revenue due to the World Cup Football and downward pressure on prices from other media channels. Nevertheless, total revenue of Brightfish increased, after elimination of the intra-group transactions, due to more events with partners.

### REBITDA

Current EBITDA (REBITDA) was € 74.3 million, which was stable compared to 2013 (-0.5%). Earnings from screen advertising were lower, as they were for film distribution. In the latter case that was due to less successful film releases and a higher marketing spend by KFD. Nevertheless, the Group's total operating efficiency increased, resulting in a rise in the current gross margin. Overhead costs rose as a consequence of the expansion into the Netherlands and in Spain, and the adjustment of the organiza-

tion to the growth of the Group. As a consequence of the lower contribution of screen advertising and film distribution and the higher overhead costs, the REBITDA margin was 28.3%, compared to 30.3% the year before.

### PROFIT FOR THE PERIOD

Current profit for the period was € 35.6 million, compared to € 37.4 million in 2013. This was the result of a light fall in current EBITDA, the increase in the depreciations and the effective tax rate, partly offset by lower interest charges.

Profit for the period was € 35.2 million, compared to € 37.5 million in 2013, a 6.3% decrease.

The main non-current items in 2014 were transformation costs (€ -2.0 million), expansion costs (€ -0.7 million) and the change in the fair value of contingent considerations for the acquisition of the group Wolff Bioscopen (€ 1.4 million).

The most important non-current items in 2013 were the capital gain on the sale of an undeveloped site in Poland to Porsche Inter Auto Polska (€ 0.9 million), the reversal of a provision for the settlement of leases (€ 0.5 million) and transformation costs (€ -0.5 million).

The higher current depreciations are the consequence of higher investments in 2014.

Current net financial expenses were € 0.3 million lower than in 2013. Despite the higher average debt ratio, interest charges were lower, due to lower interest rates in 2014.

The effective tax rate was 24.2%, compared to 23.5% in 2013. The higher taxes are primarily due to lower tax losses carried forward, lower notional interest deduction and investments in tax sheltering and the impact of the fairness tax. This increase was largely offset by the lower profit before tax and a one-off impact as a consequence of a planned structural change.

Earnings per share were € 1.34. This is 2.9% lower than in 2013. The lower profit was partly offset by the positive impact of the share buyback in 2014, as part of the further optimization of the capital structure.

### **FREE CASH FLOW AND NET FINANCIAL DEBT**

The free cash flow was € 51.8 million, compared to € 46.3 million in 2013, a rise of 11.7%.

The higher free cash flow was primarily due to working capital movements (€ +10.1 million) and lower interest paid (€ +0.6 million), partly offset by lower EBITDA and other financial charges (€ -2.8 million), higher income taxes paid (€ -2.1 million) and higher maintenance capital expenditure (€ -0.3 million).

The working capital movements are chiefly due to:

- ★ A number of one-off items (€ +2.1 million), including the high receipts in 2014 of sector-related government grants in France (CNC) (€ +1.0 million), lower payments with regard to tax sheltering (€ +0.7 million) and higher subsidies received, related to staff training in Belgium (€ +0.5 million);
- ★ Lower minimum guarantees paid in 2014 and higher debts at year-end at KFD (€ +2.0 million);
- ★ Higher trade payables due to an improved year-end in Spain, lower invoices payable at year-end 2013 and higher invoices to be received at year-end 2014 (€ +3.9 million);
- ★ Improved collection of overdue receivables in 2014 (€ +0.7 million);
- ★ A higher number of cinema vouchers sold, but not used, at year-end 2014 (€ +0.7 million).

In 2014 capital expenditure was € 32.8 million, € 20.7 million more than in 2013. The main investments in 2014 were the installation of laser projectors and Dolby Atmos sound systems in the Group's four megaplexes, the first phase of refitting the acquired cinemas in Spain, the investment in

new front office software for the Group, the purchase of the site in Dordrecht (the Netherlands) on which a new cinema will be built, the construction of the new indoor playground in Madrid (Spain), the second part of the remodelling of the cinema in Louvain (Belgium) and the purchase of the Toison d'Or building in Brussels (Belgium).

Net financial debt was € 118.6 million at 31 December 2014, an increase of € 30.5 million compared to the end of 2013 (€ 88.1 million), due to the acquisitions in the Netherlands and Spain for € 26.1 million, maintenance and renewal investments for € 17.1 million, share buybacks for € 18.7 million and the dividend pay-out of € 16.8 million. Nevertheless, the NFD/EBITDA ratio increased from 1.2 to only 1.7.

The total gross financial debt increased by € 28.2 million to € 136.0 million at 31 December 2014, compared to € 107.8 million at 31 December 2013.

### **BALANCE SHEET**

Fixed assets, at € 302.1 million, represented 87.0% of the balance sheet total as at 31 December 2014. This includes land and buildings (including investment property) with a carrying amount of € 197.1 million, or 56.8% of the balance sheet total.

At 31 December 2014 equity was € 104.7 million. Solvency was 30.2%, after further share buybacks in 2014 totaling € 18.8 million and the dividend pay-out of € 16.8 million.

### **KEY EVENTS AFTER THE END OF THE FISCAL YEAR 2014**

In January 2015 the Group concluded a private placement of bonds with institutional investors. For more detailed information, we kindly would like to refer to Note 29 to the Consolidated Financial Statements.

# Corporate Governance Statement

Pursuant to the Belgian Corporate Governance Code of 12 March 2009 (hereinafter the "Code"), the stipulations of which Kinopolis Group NV subscribes to, the Board of Directors approved on 18 November 2014 a revised version of the Corporate Governance Charter of Kinopolis Group NV. The Charter can be consulted on the 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 2014, together with an explanation of the deviations from the Code in accordance with the "comply or explain" principle.

## SHARE CAPITAL

Authorized capital at 31 December 2014 was € 18 952 288.41.

After the share split on 1 July 2014 (by which each regular share was split into five shares) and the cancellation on 18 December 2014 of 548 073 shares held by Kinopolis Group NV, the authorized capital is represented by 27 365 197 shares without nominal value, all of which give the same rights to holders.

After the buyback in 2014 of a further 604 710 shares under the authorization given by the Extraordinary General Meeting of 19 October 2012 (to buy back, under certain conditions, up to 5 856 505 shares for cancellation), the delivery of 30 000 shares within the framework of the exercise of options and the cancellation by the Board of Directors on 18 December 2014 of 548 073 treasury shares, on 31 December 2014 Kinopolis Group held 1 529 252 treasury shares with a capital value of € 1 059 113. Under the above authorization by the Extraordinary General Meeting, at 31 December 2014 Kinopolis Group NV was authorized to buy back another 3 869 335 shares.

## RIGHTS TO NOMINATE CANDIDATES FOR A SEAT ON THE BOARD OF DIRECTORS

According to the provisions of the articles of association, eight directors can 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

Kinopolis Group NV 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, Kinopolis 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 Kinopolis 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 Kinopolis Group to repay the nominal amount of all or a part of the bonds, under the conditions set forth in the Prospectus. This Prospectus can be consulted on the Investor Relations website.

Finally, there is a clause in the General Terms and Conditions dated 16 January 2015, with regard to the private placement of bonds with institutional investors with a value of € 96,0 million in the event of a change of control that is identical to the one set down in the aforementioned Prospectus.

### SHAREHOLDER STRUCTURE AND RECEIVED NOTIFICATIONS

Based on the notifications received within the framework of Article 74 of the Public Acquisition Bids Act of 1 April 2007, from Kinopolis Group NV, Kinohold Bis SA, Stichting Administratiekantoor Kinohold, Marie-Suzanne Bert-Vereecke, Joost Bert, Koenraad Bert, Geert Bert and Peter Bert, 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 Kinopolis Group NV, on subsequent transparency notices (within the meaning of the Act of 2 May 2007 and the Royal Decree of 14 February 2008 regarding the disclosure of major holdings) and notifications within the meaning of the share buyback program, as of 31 December 2014:



Kinopolis Enschede (NL)

- ★ Kinohold Bis SA held 12 700 050 shares or 46.41% 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 as directors of Stichting Administratiekantoor Kinohold): Joost Bert, Koenraad Bert, Geert Bert and Peter Bert; Kinohold Bis SA otherwise acts in close consultation with Joost Bert;
- ★ Kinopolis Group NV, controlled by Kinohold Bis SA, held 1 529 252 or 5.59% treasury shares;
- ★ Mr. Joost Bert, who acts in close consultation with Kinohold Bis SA, held 208 000 shares or 0.76% of the shares of the Company.

### SHAREHOLDERS' STRUCTURE AT 31 DECEMBER 2014

SHAREHOLDER	NUMBER OF SHARES	%
Kinohold BIS	12 700 050	46.41
Mr. Joost Bert	208 000	0.76
Kinopolis Group NV	1 529 252	5.59
Free Float of which:	12 927 895	47.24
- Axa SA	1 523 555	5.57
- BNP Paribas Investment Partners	1 406 080	5.14
<b>TOTAL</b>	<b>27 365 197</b>	<b>100</b>

## 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 AND SPECIAL COMMITTEES

### Composition of the Board of Directors

The Board of Directors consists of seven members, four of whom are independent of the majority shareholders and management. These four directors fulfil 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 of its committees, in light of ongoing and future developments and expectations, as well as its strategic objectives. In the coming years the Board will give attention to the appropriate complementarity and diversity among its members, including gender and age diversity, and ensure a balance between rejuvenation and continuity in order that the acquired knowledge and history can be passed on efficiently. The Board of Directors will also work to bring its composition into line with the requirements in Article 518 bis of the Companies Code within the terms laid down there. Within this framework, the market is regularly screened to identify potentially suitable profiles.

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 Senior Legal Advisor, bearing in mind the limited size of the Company.



The table on the opposite page shows the composition of the Board of Directors as well as the attendance record of the various directors with respect to the eleven meetings that took place in 2014.

### 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 Kinopolis Corporate Governance Charter, the following items were handled on a regular basis:

- ★ Review of the monthly revenues and financial results together with the forecasts;
- ★ Evolution in the customer and personnel satisfaction index;
- ★ Progress reports on ongoing cinema and real estate projects;
- ★ Discussion and decision on new cinema and property opportunities;
- ★ Up-to-date treasury situation and cash flow forecast.



From the left: Raf Decaluwé, Eddy Duquenne, Philip Ghekiere, Joost Bert, Geert Vanderstappen, Marcus Van Heddeghem and Marion De Bruyne

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

- ★ Discussion and establishment of the profit plan for the following fiscal year;
- ★ Determination of the short-term and long-term strategy;
- ★ The start of the share buyback programs within the framework of the optimization of the capital structure and the cancellation of treasury shares;
- ★ The short- and long-term financing;
- ★ Reports of the Nomination and Remuneration Committee and the Audit Committee;
- ★ Evaluation and establishment of the quantitative and qualitative management targets for Executive Management;
- ★ Assessment of the functioning of the Board of Directors and its committees;
- ★ Restructuring of the ICT architecture;
- ★ The primary risks the Company can be exposed to and the measures to control them.

#### DIRECTORS AS PER 31 DECEMBER 2014

NAME	POSITION	TERM ENDS	OTHER POSITIONS AT LISTED COMPANIES	ATTENDANCE RECORD (11)
Mr. Philip Ghekiere <sup>(1) (2)</sup>	Chairman	2016	/	All meetings
Mr. Eddy Duquenne	CEO	2016	/	All meetings
Mr. Joost Bert <sup>(2)</sup>	CEO	2016	/	10 meetings
Mr. Geert Vanderstappen, permanent representative of Management Center Molenberg bvba <sup>(1)</sup>	Independent Director	2018	Spector Photo Group NV: Director	10 meetings
Mr. Marcus Van Heddeghem, permanent representative of MarcVH Consult bvba <sup>(1)</sup>	Independent Director	2015	Befimmo NV: Director	8 meetings
Ms. Marion Debruyne, permanent representative of Marion Debruyne bvba <sup>(1)</sup>	Independent Director	2015	Recticel NV: Director	9 meetings
Mr. Rafaël Decaluwé, permanent representative of Gobes Comm. V. <sup>(1)</sup>	Independent Director	2015	Jensen Group NV: Chairman	10 meetings

<sup>(1)</sup> Non-executive director

<sup>(2)</sup> Represent the majority shareholders



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

At least seven meetings are scheduled in 2015. 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, Kinopolis Group NV has one joint committee – the Nomination and Remuneration Committee. This committee comprises the following non-executive directors, the majority of whom are 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 Kinopolis Group NV and Investment Director at NPM Capital);
- ★ MarcVH Consult bvba, whose permanent representative is Mr. Marcus Van Heddeghem (former Managing Director of Redevco Belgium);
- ★ Gobes Comm. V., whose permanent representative is Mr. Rafaël Decaluwé (former CEO of Bekaert NV).

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

The NRC met four times in 2014 in the presence of all members and mainly dealt with the following:

- ★ Evaluation of the management targets for Executive Management and establishment of the variable remuneration for the fiscal year 2013;

- ★ Qualitative and quantitative management targets with regard to the fiscal year 2014 for Executive Management and the corresponding variable remuneration and outperformance bonus;
- ★ The remuneration policy for senior management;
- ★ The 2007-2016 Share Option Plan and arrangements for its implementation;
- ★ The changes in composition of the Board of Directors and the ensuing process for selecting and appointing candidates;
- ★ Evaluation of the functioning of the Board of Directors and its committees;
- ★ Preparation of the Remuneration Report.

#### **Composition and activities report of the Audit Committee**

Pursuant to Article 526 bis of the Companies Code, 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:

- ★ Management Center Molenberg bvba, whose permanent representative is Mr. Geert Vanderstappen, who 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;
- ★ Gobes Comm. V, whose permanent representative is Mr. Rafaël Decaluwé, who 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 2014 the Audit Committee met five times, in the presence of all 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 as well as the 2014 "risk management action plan";
- ★ Discussion of the risk survey 2014;
- ★ Evaluation of the effectiveness of the external audit process;
- ★ Evaluation of the functioning of the internal auditor;
- ★ 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.

Thus in 2014, an evaluation was conducted on the composition of the Board of Directors and its committees, based on the nature of the company and the future challenges, and with due consideration for diversity within the Board with regard to competences in various disciplines, experience in various sectors, age and gender.

Next to that, a more thorough evaluation will take place in the first semester of 2015, covering the following matters:

- ★ 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 items on the agenda are properly prepared and discussed;

- ★ Assessment of the actual contribution of each director based on his or her attendance at and constructive participation in meetings, with due consideration for the competences of each individual director;
- ★ Assessment of the remuneration of the directors and Executive Management;
- ★ Interaction with Executive Management.

This 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 Nomination and Remuneration Committee as well as at the Board of Directors, where the appropriate conclusions are drawn.



## 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 information. 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 this regard, Kinohold Bis SA, Mr. Joost Bert, PGMS NV, Mr. Philip Ghekiere and Mr. Eddy Duquenne have informed the Company that the Executive Committee of the FSMA has initiated a procedure before the Sanctions Committee of the FSMA against each of them based on alleged abuse of inside information with respect to share purchase transactions they have entered into for their own account on 22 November (and as far as Kinohold Bis SA is concerned, also on 23, 24 and 25 November) 2011 and which, at that time, have immediately been reported pursuant to the notification

obligation for transactions carried out by persons discharging managerial responsibilities as referred to in article 25bis §2 of the Act of 2 August 2002. Within the framework of this procedure (in which the Company itself is not involved), the Management Committee of the FSMA claims that an administrative fine should be imposed on each of the aforementioned persons. A decision is expected in the course of 2015.

The Code of Conduct approved by the Board of Directors in 2012 containing the appropriate guidelines, values and standards with regard to the ethical and fitting way Kinopolis wishes to treat employees, customers, suppliers, shareholders and the general public was implemented at the beginning of 2013.

The transactions with related parties as included in Note 28 to the Consolidated Financial Statements were conducted in complete transparency with the Board of Directors.

## REMUNERATION REPORT

Kinopolis 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.



Kinopolis Bruges (BE)

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 taking account of an attendance of a minimum number of meetings of the Board of Directors;
- ★ The members of the committees are allocated a fixed amount every time they attend a meeting of the committee, with additional fixed remuneration for the president of the Audit Committee and of the Nomination and Remuneration Committee;
- ★ The Chairman of the Board of Directors and the Chief Executive Officers are allocated a fixed annual amount for participating in the Board of Directors meetings;
- ★ The non-executive directors do not receive any bonuses, participation in long-term share-based incentive programs, benefits in kind (with the exception of the right to attend a number of film screenings each year) 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 Nomination and Remuneration Committee. 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 variable part of the remuneration ensures that the interests of Executive Management run parallel to the Group's, leads to value creation and loyalty, and provides the appropriate incentive to optimize the short-term and long-term objectives of the Group and its shareholders;
- ★ As well as this variable remuneration, an "outperformance" 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/or the use of a company car;



- ★ The Company's formal right to claim back variable remuneration and "outperformance" bonus granted on the basis of incorrect financial data was not explicitly provided for in such cases;
- ★ The exit compensation for a member of Executive Management in the event of early termination of a contract (entered into after 1 July 2009) will not exceed twelve (12) 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 (18) months' basic and variable remuneration. In any event, the exit compensation may not exceed twelve (12) months' basic remuneration and the variable remuneration cannot be taken into account if the departing person has not met the performance criteria referred to in his or her contract.

### Procedure

The annual overall remuneration for the members of the Board of Directors will be determined 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 set in the past, 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 amounts, set in 2011 and adjusted in 2013, are based on benchmarking using surveys conducted by independent third parties with regard to listed and other companies and resulted in the following remunerations:

- ★ € 87 250 as fixed remuneration for the chairmanship of the Board of Directors;
- ★ € 30 000 as fixed remuneration for attendance by the Chief Executive Officers of the meetings of the Board of Directors;
- ★ € 32 500 for the actual attendance of the other directors of six or more meetings of the Board of Directors; the remuneration will be reduced proportionately if fewer meetings are attended;

- ★ € 3 000 for attendance of a meeting of the Audit Committee or the Nomination and Remuneration Committee;
- ★ € 3 750 as additional fixed remuneration for the chairman of the Audit Committee and of the Nomination and remuneration Committee.

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, as well as the level of these targets, 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 Nomination and Remuneration Committee. 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 17 May 2013 the General Meeting approved the proposal to base the integral annual variable remuneration of the CEOs for the fiscal years 2014 till 2016 on objective and measurable performance indicators agreed in advance and always measured over a period of one year, in accordance with Article 520ter of the Companies Code.



Kinopolis Schaffhausen (CH)



Presentation of the Global Achievement Award in Exhibition to Mr. Eddy Duquenne, CEO

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

In line with the remuneration policy and its underlying principles, the non-executive directors of the Company were remunerated for their services in the past fiscal year as shown in the following table. 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.

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 € 21 850 (including taxes) is paid by the Company.

### Application of the remuneration policy on the members of Executive Management

Bearing in mind benchmark data, the duties, responsibilities and management targets, in 2013 the remuneration in the remuneration package for Executive Management for the

fiscal years 2013-2014, established by the Board of Directors on the proposal of the Nomination and Remuneration Committee by which the remuneration method used earlier is retained but after thorough benchmarking with comparable listed companies based on an external survey and bearing in mind the sustainable improvements in results and value creation was adjusted as follows:

- ★ bvba Eddy Duquenne:
  - fixed remuneration: € 428 242 <sup>(1)</sup>
  - maximum variable remuneration: € 295 000
  - maximum "outperformance" bonus: € 165 000
  - monthly fixed expenses: € 750
- ★ Mr. Joost Bert:
  - fixed remuneration: € 330 120 <sup>(1)</sup>
  - maximum variable remuneration: € 215 000
  - maximum "outperformance" bonus: € 75 000

The amount of the variable remuneration ultimately granted to Executive Management depends on the fulfilment of the annual management targets, which apply collectively to

NAME	TITLE	REMUNERATION 2014 (IN €)
<b>BOARD OF DIRECTORS AS AT 31 DECEMBER 2014</b>		
Mr. Philip Ghekiere	Chairman of the Board of Directors and of the Nomination and Remuneration Committee	103 000
Mr. Eddy Duquenne	CEO	30 000
Mr. Joost Bert	CEO	30 000
Mr. Geert Vanderstappen, permanent representative of Management Center Molenberg bvba	Independent Director	51 250
Mr. Marcus Van Heddeghem, permanent representative of MarcVH Consult bvba	Independent Director	44 500
Ms. Marion Debruyne, permanent representative of Marion Debruyne bvba	Independent Director	32 500
Mr. Rafaël Decaluwé, permanent representative of Gobes Comm. V	Independent Director	59 500
<b>TOTAL</b>		<b>350 750</b>

<sup>(1)</sup> Since the financial year 2014 Executive Management no longer charges car costs but the fixed compensation was raised in a tax-neutral manner at a corresponding indexed amount to compensate for this.

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 this 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 outperformance bonus, the annual amount of which is set by the Board of Directors.

The above-mentioned remunerations and outperformance bonuses will be paid out at the beginning of the following financial year.

In the evaluation of the financial year 2013, the Board of Directors observed in 2014 that Executive Management had performed very strongly. For instance, it was observed that, in spite of an unexpected drop in visitor numbers of 1.6 million due to external circumstances, a considerable and sustainable improvement in profitability per visitor was achieved in addition to the improvement potential identified in the profit plan, and lastly that performance was much better than provided for in the profit plan, with net current profit of € 37.4 million.

Given the very strong performance of Executive Management in a difficult period, as also recognized by the market, the structural improvement of profitability and the attainment or at least the putting into practice of the qualitative management goals, the Board of Directors, assisted by the Nomination and Remuneration Committee, has decided to pay out the variable remuneration to Executive Management of a total amount of € 510 000 as well as an outperformance bonus to Mr. Duquenne of € 125 000.

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.

The table on the opposite page provides an overview of the fixed part of the remuneration, the other components of the remuneration (such as pension contributions, insurances and car allowances) as well as the variable part, as paid out in 2014. In this regard it is observed that since the financial year 2014 Executive Management no longer charges car costs but that the fixed compensation was raised in a tax-neutral manner at a corresponding indexed amount to compensate for this.

#### Long-term incentives

The goal of the 2007-2016 Share Option Plan (the "Plan") approved by the Board of Directors on 5 November 2007 and enlarged on 25 March 2011 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.



NAME	REMUNERATION	AMOUNTS (EXCL. VAT) (IN €)
<b>CEO</b>		
Eddy Duquenne bvba	Fixed remuneration <sup>(1)</sup>	428 242 <sup>(4)</sup>
	Variable remuneration <sup>(2)</sup>	295 000
	"Outperformance" bonus <sup>(2)</sup>	125 000
	Expense allowance	9 000
	<b>TOTAL</b>	<b>857 242</b>
Joost Bert	Fixed remuneration <sup>(1)</sup>	330 120 <sup>(4)</sup>
	Variable remuneration <sup>(2)</sup>	215 000
	"Outperformance" bonus <sup>(2)</sup>	0
	Pension scheme <sup>(3)</sup>	10 422
	<b>TOTAL</b>	<b>555 542</b>

<sup>(1)</sup> Other than remuneration received as a member of the Board of Directors (which amounts to € 30 000 for each director).

<sup>(2)</sup> Received in 2014 for performances in 2013.

<sup>(3)</sup> Mr. Joost Bert participates in a supplementary pension scheme providing for an annual indexed fixed contribution.

<sup>(4)</sup> Since the financial year 2014 Executive Management no longer charges car costs but the fixed compensation was raised in a tax-neutral manner at a corresponding indexed amount to compensate for this.

346 540 <sup>(2)</sup> options were granted to the Chairman <sup>(1)</sup> and each of the CEOs in 2008. In 2009 management staff were granted 150 000 options, 75 000 in 2010 and 237 500 in 2011. In 2012 no options were granted, but 39 000 options forfeited that were not yet permanently acquired. No options were granted in 2013 either, but 48 675 options forfeited that were not yet permanently acquired and 70 000 options were exercised. In 2014, 125 000 options were granted and 30 000 options exercised.

At 31 December 2014, 1 426 245 granted options were still outstanding.

Given that the granting of the share options is not based on individual or company performance, they are not considered to be part of the variable remuneration as defined in the Companies Code.

A further description of the characteristics of these options is provided in Note 20 to the Consolidated Financial Statements.

#### Fiscal years 2015-2016

On the proposal of the Nomination and Remuneration Committee, and with due consideration for the benchmark data from an external survey, the Board of Directors has decided to adopt the remuneration policy and the remuneration of the Executive Management for the fiscal years 2015-2016 in order to bring the policy more into line with practice at other comparable listed companies with regard to the ratio of the fixed to the variable part of the remuneration package and to keep the remuneration in line with market rates, bearing in mind the roles, responsibilities, management targets and value created.

Given the long-term improvement in the results of the existing core business, the important steps taken in the implementation of the expansion strategy and the great value created for all stakeholders by the Executive Management in recent years, the Board of Directors has decided:

- ★ to increase the fixed remuneration of bvba Eddy Duquenne from € 428 242 <sup>(3)</sup> to € 538 242 and to reduce the variable remuneration of maximum € 295 000 and the "outperformance" bonus of maximum € 165 000 to a variable remuneration of maximum € 400 000; the annual expense allowance of € 9 000 is unchanged.

<sup>(1)</sup> In his former capacity of Executive Director.

<sup>(2)</sup> The number at that time multiplied by five, with due consideration for the 2014 share split.

<sup>(3)</sup> Since the fiscal year 2014 the Executive Management no longer charges on car costs. Instead, the fixed remuneration has been increased by a corresponding indexed amount.



- ★ to increase the fixed remuneration of Mr. Joost Bert from € 300 120<sup>(1)</sup> to € 350 120 and to reduce the variable remuneration of maximum € 215 000 and the “outperformance” bonus of maximum € 75 000 to a variable remuneration of maximum € 220 000; the annual indexed pension contribution is unchanged.

The management targets to which the variable remuneration is linked are qualitative and quantitative targets to which 30% and 70% of the variable remuneration is linked respectively.

The achievement of the quantitative targets will be measured based on the improvement of the financial results (REBITDA/net current profit) compared to the previous fiscal year, with due consideration for the changes in the critical parameters for value creation in the existing businesses and the impact of the integration of expansion projects.

The qualitative targets, which among other things relate to the further expansion of the company, the further development of the “Talent Factory” and the further optimisation of management reporting, will be evaluated annually based on the progress made on each specific target.

These targets were established to ensure that they help attain not only the short-term goals but also the long-term goals of the Group.

## DESCRIPTION OF THE MAIN CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Kinopolis Group 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 complying and regulatory risks as to enable the achievement of the corporate objectives.

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

### Roles and Responsibilities

Within Kinopolis 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.

*(1) Since the fiscal year 2014 the Executive Management no longer charges on car costs. Instead, the fixed remuneration has been increased by a corresponding indexed amount.*



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 Kinopolis 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 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 Control Environment**

An appropriate internal environment is a precondition of being able to effectively apply other risk management components. An appropriate internal environment is a precondition of being able to effectively apply other risk management components. With this in mind, Kinopolis Group values integrity and ethical action highly. Alongside the existing legal framework, Kinopolis Group endeavours to encourage and enforce this type of behaviour through preventive measures (such as Code of Conduct, 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. Kinopolis 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**

Business objectives are established over various durations in line with the Kinopolis 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.



Kinopolis Madrid (ES)

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

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

### Internal Control

Internal Control is defined as the identification and assessment of business risks as well as the selection, implementation and management of the appropriate risk responses (including the various 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, Kinopolis endeavors to standardize the process as much as possible. This is achieved by organizing corporate ERM trainings, implementing the structured policy guidelines and procedures, and using standard lists of internal audits to be conducted.

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

### Information and Communication

The appropriate structures, consultation bodies, reporting and communication channels have been set up within Kinopolis Group for business operations in general and risk management in particular 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, Kinopolis 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 that 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.



Kinopolis Nimes (FR)



## 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 previous years, in 2014 this again occurred on the basis of a written survey of the participants to gain 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 (in random order) 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 films), it is dependent on the availability, diversity and quality of films 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 revenue of Kinepolis Group can vary from period to period, because the producers and distributors decide when their films 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, but endeavors to mitigate the consequences among other things by variabilizing its cost structure to a maximum degree.

### Competition

Kinepolis Group's position as a cinema operator is subject to competition just like every other product or service for which substitution exists. Kinepolis Group's position is impacted by increasing competition from other leisure activities, such as concerts and sporting events, which can influence the behaviour of Kinepolis customers. This competition also 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 films 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 film 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 films. 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 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 films, 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 arising from growth opportunities**

In the event of further growth, 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 growth opportunities, either through acquisition or new-build projects, that can have a negative impact on the goals set. With this in mind, Kinepolis Group will thoroughly examine growth 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 requirement for a prior approval of plans to build new cinema complexes or acquire existing cinema complexes in Belgium if these do not entail the rundown of existing complexes.

#### **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 system architecture and, where necessary, optimizing 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 taking out proper insurance.

#### **Environmental liability and property risks**

The property that Kinepolis Group owns and leases is subject to 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.

### Other risks

After the acquisition by KP Immo Brussel NV (a subsidiary of Kinopolis Group NV) of the premises in Galerie Toison d'Or (Guldenvlieslaan/Avenue de la Toison d'Or 8) in Brussels (Belgium), which are leased to the cinema operator UGC Belgium, Kinopolis Group NV and its subsidiary were served with a summons by the aforementioned tenant before the Commercial Court in Brussels to declare the aforementioned transaction null and void due to alleged breaches of the Economic Law Book and one of the conditions imposed on Kinopolis Group by the Belgian Competition Authority in 1997. UGC Belgium also filed a complaint with this Competition Authority at year-end 2014.

Kinopolis is confident that both suits will end satisfactorily.

### USE OF FINANCIAL INSTRUMENTS

Kinopolis Group is exposed to a number of financial risks in her 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.

Kinopolis 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 2014 the Group's net financial debt was € 118.6 million. Forward foreign exchange contracts were entered into for a nominal amount of \$ 1.2 million to hedge exchange rate risks resulting from the purchase and guarantee obligations.

The Notes to the Consolidated Financial Statements provide a detailed description of how the Group manages the aforementioned risks.



### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Kinopolis 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 Stipulations 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 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 by allowing them to participate in future value creation and to enable the Company to offer a competitive remuneration package and as such to be able to hire, remunerate and retain 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 director to be re-appointed were not stipulated in the convening notices to the General Shareholders' Meeting of 16 May 2014, given that these qualifications are already published in several press releases and annual reports.

# Other information



Cosy Seating

## RESEARCH AND DEVELOPMENT

Within the framework of the three strategic pillars, in the year under review, Kinopolis Group developed a number of new concepts for the operating entities. Kinopolis works to constantly adapt its experience to the changing demographic trends, to be innovative in terms of screen and sound and other experiences, with the aim of creating an ever-better customer experience and protecting the profitability of the Group going forward. Examples of concepts developed in 2014 are the Magic Playground in Madrid (Spain), Kinopolis Ultra with cosy seating, 3D sound and laser projection.

## CONFLICT OF INTERESTS POLICY

The Board of Directors took two decisions on 21 March 2014 pursuant to Article 523 of the Companies Code.

These decisions related to the following:

- ★ The overall granting of the variable part of the remuneration in the amount of € 295 000 to bvba Eddy Duquenne and € 215 000 to Mr. Joost Bert, as well as the overall granting of an “outperformance” bonus of € 125 000 to bvba Eddy Duquenne;
- ★ The establishment of the management targets for fiscal year 2014.

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

The Board of Directors took two decisions on 10 June 2014 pursuant to Article 523 of the Companies Code with regard to the adjustment of the management remuneration of Mr. Joost Bert and Eddy Duquenne bvba, given that car costs are no longer charged on.

## PROFIT APPROPRIATION AND DIVIDEND PAYMENT

In its proposal to the General 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 € 23 102 236 for fiscal year 2014 will be proposed. This amount includes a dividend, taking account of a pay-out ratio of 50% calculated on the current net profit and an exceptional dividend of € 5 435 820, to be divided among the shares entitled to dividend.

For the fiscal year 2014 this results in a gross dividend of € 0.89 per share. If all vested options are exercised the gross dividend will be € 0.85 per share.

Subject to the approval of the General Meeting, the Board of Directors decided to make the dividend and exceptional dividend available to shareholders through a financial institution of their choice on 21 May 2015 (ex-date: 19 May 2015; record date: 20 May 2015).

# Declaration with regard to the information contained in this annual report

Undersigned certify that, to their knowledge,

- ★ The consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the equity, financial position and financial performance of the company, and the entities included in the consolidation as a whole;
- ★ The management report on the consolidated financial statements includes a fair overview of the development and performance of the business and the position of the company, and the entities included in the consolidation, together with a description of the principal risks and uncertainties which they are exposed to.

23 March 2015

Eddy Duquenne  
CEO Kinopolis Group

Joost Bert  
CEO Kinopolis Group



Eddy Duquenne & Joost Bert, CEOs Kinopolis Group



Kinepolis Alicante (ES)





# Share information

# The Kinopolis Group share

## NUMBER OF SHARES

	2010	2011	2012	2013	2014
Number of shares at 31 December	6 930 778	6 581 355	5 856 508	5 582 654	27 365 197
Weighted average number of ordinary shares <sup>(1)</sup>	6 653 547	6 550 294	5 800 963	5 431 812	26 288 260
Weighted average number of diluted shares <sup>(2)</sup>	6 738 645	6 660 484	5 966 251	5 628 307	27 341 842

## SHARE TRADING

	2010	2011	2012	2013	2014
Closing price at 31 December (in €)	50.99	55.16	81.99	115.1	33.46
Market value at closing price (in '000 €)	353 400	363 028	480 175	642 563	915 639
Lowest price of the year (in €)	28.50	44.5	54.2	79.9	22.9
Highest price of the year (in €)	52.45	59.95	83.61	117.3	34.31
Traded year volume	4 066 070	2 719 592	2 174 524	1 366 053	4 719 540 <sup>(3)</sup>
Average traded day volume	15 977	10 582	8 494	5 357	18 430 <sup>(3)</sup>

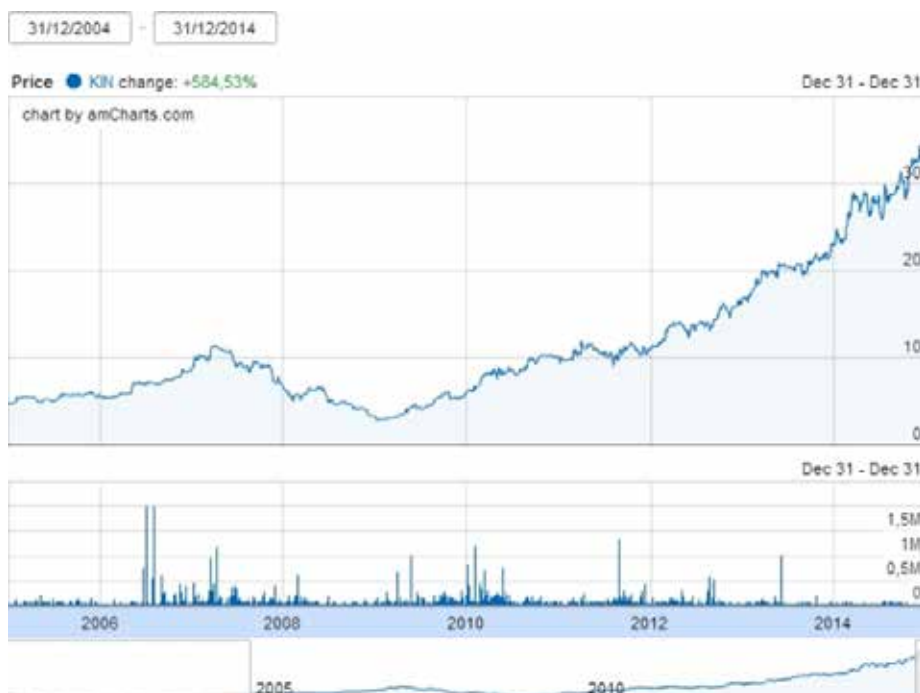
<sup>(1)</sup> Weighted average number of ordinary shares: average number of outstanding shares – average number of treasury shares.

<sup>(2)</sup> Weighted average number of diluted shares: average of 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.

<sup>(3)</sup> On 1 July 2014 each Kinopolis share was split into five new shares. The first six months were recalculated in that sense.



## SHARE PRICE AND VOLUME OVER LAST TEN YEARS <sup>(4)</sup>



(4) As a consequence of the share split on 1 July 2014, the historical share price has been recalculated (price divided by five).

The Kinpolis Group share (ISIN: BE0003722361 / mnemo: KIN) has been listed since 9 April 1998 on **NYSE Euronext Brussels**, under compartment B, Mid Caps and is on the **VLAM21 index** list and on the **IN.flanders index** list.

**KIN**  
**LISTED**  
**NYSE**  
**EURONEXT**

### SHARE SPLIT

As a consequence of the adoption of the share split resolution by the Extraordinary Shareholders' Meeting on 16 May 2014, each ordinary share was split into five new shares on 1 July 2014. The split shares were traded on the regulated Euronext market as from this date. With the split Kinpolis aimed to improve the tradability of its shares without diluting the shareholders' position. This transaction also improved the liquidity and accessibility of the shares for private investors.



Global Achievement Award  
in Exhibition 2014



Kinepolis Alcobendas - Madrid (ES)



# Financial Report

# Consolidated income statement

at 31 December

IN '000 €	NOTE	2013	2014
Revenue	3	245 980	262 619
Cost of sales		-163 869	-180 776
<b>Gross profit</b>		<b>82 111</b>	<b>81 843</b>
Marketing and selling expenses		-15 240	-16 069
Administrative expenses		-13 638	-15 583
Other operating income	4	2 681	816
Other operating expenses	4	-845	-342
<b>Operating profit</b>		<b>55 069</b>	<b>50 665</b>
Finance income	7	1 206	2 390
Finance expenses	7	-7 204	-6 685
<b>Profit before tax</b>		<b>49 071</b>	<b>46 370</b>
Income tax expense	8	-11 530	-11 203
<b>PROFIT FOR THE PERIOD</b>		<b>37 541</b>	<b>35 167</b>
Attributable to:			
Owners of the Company		37 541	35 167
Non-controlling interests			
<b>PROFIT FOR THE PERIOD</b>		<b>37 541</b>	<b>35 167</b>
Basic earnings per share (€)	19	1.38	1.34
Diluted earnings per share (€)	19	1.33	1.29

The notes on page 58-111 are fully part of these consolidated financial statements.

# Consolidated statement of profit or loss and other comprehensive income

at 31 December

IN '000 €	NOTE	2013	2014
<b>Profit for the period</b>		<b>37 541</b>	<b>35 167</b>
<b>Items that are or may be reclassified to profit or loss:</b>			
Translation differences		-393	-97
Cash flow hedges – effective portion of changes in fair value		84	27
Cash flow hedges – net change in the fair value reclassified to profit or loss		480	60
Taxes on other comprehensive income		-194	-30
<b>Other comprehensive income for the period, net of tax</b>		<b>-23</b>	<b>-40</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>37 518</b>	<b>35 127</b>
Attributable to:			
Owners of the Company		37 518	35 127
Non-controlling interests			
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>37 518</b>	<b>35 127</b>

The notes on page 58-111 are fully part of these consolidated financial statements.

# Consolidated statement of financial position

at 31 December

## ASSETS

IN '000 €	NOTE	2013	2014
Other intangible assets	9	3 016	3 998
Goodwill	10	18 761	36 116
Property, plant and equipment	11	206 871	215 335
Investment property	12	12 056	32 628
Deferred tax assets	13	1 113	1 308
Other receivables	15	13 395	12 656
Other financial assets		27	27
<b>Non-current assets</b>		<b>255 239</b>	<b>302 068</b>
Inventories	14	3 359	3 636
Trade and other receivables	15	25 176	24 293
Current tax assets		523	40
Cash and cash equivalents	16	19 293	17 000
Derivative financial instruments			27
Assets classified as held for sale	17	6 721	
<b>Current assets</b>		<b>55 072</b>	<b>44 996</b>
<b>TOTAL ASSETS</b>		<b>310 311</b>	<b>347 064</b>

## EQUITY AND LIABILITIES

IN '000 €	NOTE	2013	2014
Share capital	18	18 952	18 952
Share premium	18	1 154	1 154
Consolidated reserves		86 132	86 304
Translation reserve		-1 581	-1 678
<b>Total equity attributable to owners of the Company</b>		<b>104 657</b>	<b>104 732</b>
<b>Non-controlling interests</b>			
<b>Equity</b>		<b>104 657</b>	<b>104 732</b>
Loans and borrowings	21	87 917	91 471
Provisions	22	3 016	2 497
Deferred tax liabilities	13	17 509	15 855
Derivative financial instruments	24		
Other payables	23	8 104	7 357
<b>Non-current liabilities</b>		<b>116 546</b>	<b>117 180</b>
Bank overdrafts	16	581	470
Loans and borrowings	21	19 332	44 095
Trade and other payables	23	62 383	72 294
Provisions	22	715	610
Derivative financial instruments	24	60	
Current tax liabilities		6 037	7 683
<b>Current liabilities</b>		<b>89 108</b>	<b>125 152</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>310 311</b>	<b>347 064</b>

The notes on page 58-111 are fully part of these consolidated financial statements.



# Consolidated statement of cash flows

at 31 December

IN '000 €	NOTE	2013	2014
Profit before tax		49 071	46.370
Adjustment for:			
Depreciation and amortization	6	20 005	21 322
Provisions and impairments		-68	-684
Government grants	4	-664	-649
(Gains) Losses on sale of fixed assets	4	-909	-14
Change in fair value of derivative financial instruments and unrealized foreign exchange results		-9	38
Change in fair value of contingent considerations	7, 10, 24		-1 359
Unwinding of non-current receivables	7, 22	-731	-696
Share-based payments	5	181	389
Impairment on tax shelter investments	7	539	433
Amortization of transaction costs refinancing		209	209
Interest expenses and income	7	4 851	4 313
Change in inventory		-193	-176
Change in trade and other receivables		-2 130	3 154
Change in trade and other payables		-1 980	2 803
<b>Cash from operating activities</b>		<b>68 172</b>	<b>75 453</b>
Income taxes paid		-9 239	-11 321
<b>Net cash from operating activities</b>		<b>58 933</b>	<b>64 132</b>
Acquisition of other intangible assets	9	-951	-2 169
Acquisition of property, plant and equipment and investment property	11, 12	-11 086	-30 570
Acquisition of subsidiaries, net of cash acquired	10		-10 468
Proceeds from sale of property, plant and equipment		1 851	293
<b>Net cash used in investing activities</b>		<b>-10 186</b>	<b>-42 914</b>
Capital reduction		-8	-5
New loans		102 641	102 000
Repayment of borrowings		-114 998	-85 589
Interest paid		-4 873	-4 325
Interest received		21	12
Repurchase and sale of own shares		-28 459	-18 657
Dividends paid		-13 096	-16 846
<b>Net cash used in financing activities</b>		<b>-58 772</b>	<b>-23 410</b>
<b>NET CASH FLOW</b>		<b>-10 025</b>	<b>-2 192</b>
Cash and cash equivalents at beginning of the period	16	28 785	18 712
Cash and cash equivalents at end of the period	16	18 712	16 530
Effect of exchange rate fluctuations on cash held		-48	10
<b>NET CASH FLOW</b>		<b>-10 025</b>	<b>-2 192</b>

The notes on page 58-111 are fully part of these consolidated financial statements.

# Consolidated statement of changes in equity

at 31 December

IN '000 €								2014	
	ATTRIBUTABLE TO OWNERS OF THE COMPANY						NON-CONTROL-LING INTERESTS	EQUITY	
	SHARE CAPITAL AND SHARE PREMIUM	TRANSLATION RESERVE	HEDGING RESERVE	TREASURY SHARES RESERVE	SHARE-BASED PAYMENTS RESERVE	RETAINED EARNINGS			
<b>AT 31 DECEMBER 2013</b>	<b>20 106</b>	<b>-1 581</b>	<b>-39</b>	<b>-8 816</b>	<b>2 597</b>	<b>92 390</b>		<b>104 657</b>	
Profit for the period						35 167		35 167	
Items that are or may be reclassified to profit or loss:									
Translation reserve		-97						-97	
Cash flow hedges – effective portion of changes in fair value			27					27	
Cash flow hedges – net change in the fair value reclassified to profit or loss			60					60	
Taxes on other comprehensive income			-30					-30	
<b>Other comprehensive income for the period, net of tax</b>		<b>-97</b>	<b>57</b>					<b>-40</b>	
<b>Total comprehensive income</b>		<b>-97</b>	<b>57</b>			<b>35 167</b>		<b>35 127</b>	
Dividends						-16 847		-16 847	
Own shares acquired / sold				-18 667		74		-18 593	
Cancellation of treasury shares				16 911		-16 911			
Share-based payment transactions					314	75		389	
<b>Total transactions with owners, recorded directly in equity</b>				<b>-1 756</b>	<b>314</b>	<b>-33 609</b>		<b>-35 051</b>	
<b>AT 31 DECEMBER 2014</b>	<b>20 106</b>	<b>-1 678</b>	<b>17</b>	<b>-10 572</b>	<b>2 911</b>	<b>93 948</b>		<b>104 732</b>	

The notes on page 58-111 are fully part of these consolidated financial statements.

IN '000 €	2013							
	ATTRIBUTABLE TO OWNERS OF THE COMPANY						NON-CONTROL-LING INTERESTS	EQUITY
	SHARE CAPITAL AND SHARE PREMIUM	TRANSLATION RESERVE	HEDGING RESERVE	TREASURY SHARES RESERVE	SHARE-BASED PAYMENTS RESERVE	RETAINED EARNINGS		
<b>AT 31 DECEMBER 2012</b>	<b>20 106</b>	<b>-1 188</b>	<b>-409</b>	<b>-8 876</b>	<b>2 493</b>	<b>96 542</b>		<b>108 668</b>
<b>Profit for the period</b>						<b>37 541</b>		<b>37 541</b>
<b>Items that are or may be reclassified to profit or loss:</b>								
Translation differences		-393						-393
Cash flow hedges – effective portion of changes in fair value			84					84
Cash flow hedges – net change in the fair value reclassified to profit or loss			480					480
Taxes on other comprehensive income			-194					-194
<b>Other comprehensive income for the period, net of tax</b>		<b>-393</b>	<b>370</b>					<b>-23</b>
<b>Total comprehensive income</b>		<b>-393</b>	<b>370</b>			<b>37 541</b>		<b>37 518</b>
Dividends						-13 085		-13 085
Own shares acquired / sold				-28 478		-146		-28 624
Cancellation of treasury shares				28 538		-28 538		
Share-based payment transactions					104	77		181
<b>Total transactions with owners, recorded directly in equity</b>				<b>60</b>	<b>104</b>	<b>-41 692</b>		<b>-41 528</b>
<b>AT 31 DECEMBER 2013</b>	<b>20 106</b>	<b>-1 581</b>	<b>-39</b>	<b>-8 816</b>	<b>2 597</b>	<b>92 390</b>		<b>104 657</b>

The notes on page 58-111 are fully part of these consolidated financial statements.

# Notes to the consolidated financial statements

1. Significant accounting policies
2. Segment reporting
3. Revenue
4. Other operating income and expenses
5. Personnel expenses and other social benefits
6. Additional information on operating expenses by nature
7. Finance income and expenses
8. Income tax expense
9. Other intangible assets
10. Goodwill and business combinations
11. Property, plant and equipment
12. Investment property
13. Deferred tax
14. Inventories
15. Trade and other receivables
16. Cash and cash equivalents
17. Assets classified as held for sale
18. Equity
19. Earnings per share
20. Share-based payments
21. Loans and borrowings
22. Provisions
23. Trade and other payables
24. Risk management and financial instruments
25. Operating leases
26. Capital commitments
27. Contingencies
28. Related parties
29. Subsequent events
30. Mandates and remuneration of the Statutory Auditor
31. Group entities

# 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 2014 include the Company and its subsidiaries (together the "Group") and the Group's interest in equity accounted investees. On 23 March 2015 these consolidated financial statements were approved for publication by the Board of Directors.

## STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB) and adopted by the European Union until 31 December 2014. 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 euro, 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, contingent considerations and financial assets available for sale.

Assets classified as held for sale are measured, in accordance with IFRS 5, at the lower of their carrying amount and fair value less costs to sell.

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

A number of new standards and amendments to existing standards that became applicable to the preparation of the consolidated annual accounts as from 1 January 2014 gave no cause to change the Group's accounting rules and have no material impact on the consolidated financial statements.

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 amount 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 estimates are 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.

Judgements, 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 (see related accounting policies);
- ★ Assessing the necessity of and estimating impairment losses on intangible assets (including goodwill) and property, plant and equipment;
- ★ Determining impairments on inventories;
- ★ Recording and calculating provisions;
- ★ Assessing the degree to which losses carried forward will be used in the future;
- ★ Classifying leases (see notes 11 and 25);
- ★ Prospectively evaluating the effectiveness of cash flow hedges;
- ★ Determining the fair value of the contingent considerations within the framework of business combinations (see notes 10 and 24).

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 period 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 recover these losses (based on budgets and forecasts). The actual tax result may differ from the assumption made when the deferred tax was recorded. We refer to Note 13 for the relevant assumptions.

### **Impairment tests for intangible assets (including goodwill) and property, plant and equipment**

The recoverable amount of the cash generating units is defined as the higher of their value in use or their fair value less costs to sell. 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. We refer to Note 10 for the relevant assumptions.

### **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. We refer to Note 22 for the relevant assumptions.

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

## **BASIS OF CONSOLIDATION**

### **Business combinations**

Business combinations are accounted for using the acquisition method when control is transferred to the Group (see Basis of consolidation - Subsidiaries). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see Intangible assets – Goodwill). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay a contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in the income statement.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

### **Subsidiaries**

Subsidiaries are those entities over which the Company exercises control. By control is understood that the Company is exposed to or has right to variable returns from its involvement in the investee, and has the ability to affect these returns through its power over the investee.

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 or joint control, over the financial and operational policies. Significant influence is deemed to exist where the Group

holds between 20 and 50 percent of the voting rights of another entity. Participating interests in equity accounted investees are recorded using the equity method and are initially recognized at cost. The transaction costs are included in the cost price of the investment. The consolidated financial statements include the Group's share in the comprehensive income of the investments, 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 amount of the investments in equity accounted investees, the carrying amount 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 investees. When there are impairment indicators, the accounting policy concerning impairment losses is applied.

#### **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.

#### **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, with the exception of exchange rate differences with regard to equity instruments available for sale. 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.

#### **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 expenses of foreign entities are translated to euro at exchange rates approaching the exchange rates prevailing on the transaction dates.

Exchange rate differences arising from translation are recognized immediately in equity.

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 other comprehensive income under the translation reserve.

## **FINANCIAL INSTRUMENTS**

Issued loans, receivables and deposits, issued debt instruments and loans received are initially recognized by the Group on the date they originated. All other financial assets and liabilities are initially recognized on the transaction date. The transaction date is the date on which the contractual provisions of the instrument become binding for the Group.

#### **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 measured as described below.

#### ***Cash and cash equivalents***

Cash and cash equivalents comprise the cash and deposits withdrawable on demand with a remaining term of no more than three months, whereby the risk of changes in the fair value is negligible. 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 statement.

#### ***Financial assets available for sale - Investments in equity securities***

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

These 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 amount of the investment is impaired, the accumulated profit or loss previously included in equity is transferred to the income statement.

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 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*: Where share capital classified as equity is reacquired by the Company, the amount paid, including directly attributable costs, is viewed as a change in equity. Purchase of treasury shares is recognized as a deduction from equity. The profit or loss pursuant to the sale or cancellation of treasury shares is directly recognized in 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 measured at fair value. Attributable transaction costs are expensed in the income statement 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 to 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.

At initial designation of a derivative financial instrument as a hedging instrument the Group formally documents the relationship between hedging instrument and hedged item, including its risk management goals and strategy when entering the hedging transaction, the risk to be hedged and the methods used to assess the effectiveness of the hedge relationship. When entering the hedge relationship and subsequently, the Group assesses whether during the period for which the hedge is designated, the hedging instruments are expected to be "highly effective" in offsetting the changes in fair value or cash flows allocated to the hedged positions and whether the actual results of each hedge are within the range of 80 to 125 percent. A cash flow hedge of an expected transaction requires that it is highly likely that the transaction will occur and that this transaction results in exposure to the variability of cash flows such that this can ultimately impact the reported profit or loss.

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 hedged transaction is no longer likely, 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 property, plant and equipment items.

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

### **Leased assets**

Leases that transfer to the Group nearly all the risks and rewards of ownership of an asset are classified 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. Leased assets are depreciated over the term of the lease or the useful life, whichever is shorter, except if it is reasonably certain that the Group will assume ownership of the leased assets at the

end of the lease term. The Group has no leases under which lease payments are owed depending on future events.

#### **Subsequent expenditure**

The cost price of replacing part of a property, plant and equipment is included in the carrying amount 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 the income statement 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. It begins when the asset is ready for use. 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, for delivery of goods or for administrative purposes.

Investment property is measured at cost, less cumulative depreciation and impairments. The accounting policies for property, plant and equipment apply.

Rental income from investment property is accounted for as described below in the accounting policy for revenue.

#### **INTANGIBLE ASSETS**

##### **Goodwill**

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.

The following accounting policy applies as from 2010. Goodwill from an acquisition is the positive difference between the fair value of the consideration transferred plus the carrying amount 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.

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

##### **Other intangible assets**

Other intangible assets acquired by the Group are measured 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 generated intangible assets**

Development activities entail a plan or design for the production of new or fundamentally improved products and processes. Internally developed intangible assets are 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 intangible assets includes all costs directly attributable to the asset.

Other development costs and expenditures for research activities 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 using the straight-line method over the expected useful life of the intangible assets. Intangible assets are amortized from the date they are ready for use. Their estimated useful life is 3 to 10 years. The residual value, useful lives and depreciation methods are reviewed annually. The Group has no other intangible assets with indefinite useful life.

## **INVENTORIES**

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

## **IMPAIRMENT**

### **Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. When there is an indication of impairment, the recoverable amount of the asset is estimated. In case of goodwill and intangible assets with an indefinite useful life or which are not yet ready for use, the recoverable amount is estimated at the same date each year. An impairment loss is recorded whenever the carrying amount of an asset, or the cash generating unit to which the asset belongs, is higher than the recoverable amount.

The recoverable amount is the higher of the value in use or the fair value less costs to sell. When determining the value in use, the discounted value of the estimated future cash flows is calculated using a proposed weighted average cost of capital, that reflects both the current

market rate and the specific risks with regard to the asset or the cash generating unit. Where an asset does not generate significant cash flows by itself, the recoverable amount is determined based on the cash generating unit to which the asset belongs. Goodwill acquired in a business combination is allocated to groups of cash generating units that are expected to benefit from the synergies of the combination.

Impairment losses are charged to the income statement. Impairment losses recorded in respect of cash generating units are first deducted from the carrying amount of any goodwill assigned to cash generating units (or groups of units) and then proportionally from the carrying amount of the other assets of the unit (or group of units).

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 recoverable amount, but not in a higher amount than the net carrying amount that would have been determined if no impairment had been recorded in previous years. Goodwill impairments are not reversed.

### **Non-derivative financial assets**

Financial assets that are not measured at fair value with recognition of changes in value in the income statement, including investments that are recognized using the equity method, are assessed at every balance sheet date to determine whether there are objective indications that they have been impaired. A financial asset is deemed to be impaired if there are objective indications that an event has occurred after the initial recognition of the assets that has had a negative impact on the expected future cash flows of that asset and for which a reliable estimate can be made.

Objective indications that financial assets are impaired include the non-fulfilment of payment obligations by and overdue payments of a debtor, restructuring of an amount owed to the Group under conditions that the Group otherwise would not have considered, indications that a debtor or issuer will go bankrupt, detrimental changes in the payment status of debtors or issuers, economic

circumstances that go together with defaults and the disappearance of an active market for a given security. In addition, a significant or prolonged decline in the fair value of investments in equity instruments below cost is an objective indication of impairment. The Group judges that a decline of 20% can be considered to be significant and that a period of nine months can be considered to be prolonged.

#### **Financial assets measured at amortized cost**

Significant financial assets measured at amortized cost are tested individually for impairment. The other financial assets measured at amortized cost are classified in groups with comparable credit-risk characteristics and assessed collectively. When assessing whether there is a collective impairment the Group uses historical trends with regard to the likelihood that payment obligations will not be fulfilled, the time within which collection occurs and the level of the losses incurred. The outcomes are adjusted if management judges that the current economic and credit circumstances are such that it is likely that the actual losses will be higher or lower than the historical trends suggest.

An impairment loss with regard to a financial asset measured at amortized cost is calculated as the difference between the carrying amount and the present value of the expected future cash flows, discounted at the original effective interest rate of the asset. Current receivables are not discounted. Losses are recognized in the income statement.

If an event after the balance sheet date leads to a reduction of the impairment, this reduction is reversed through the income statement.

#### **Financial assets available for sale**

Impairments on financial assets available for sale are recognized by reclassifying the accumulated loss in the fair value reserve in equity to the income statement. The amount of the cumulative loss transferred from equity to the income statement is equal to the difference between the acquisition price, after deduction of any repayment of the principal and amortization, and the current fair value, less any impairment loss that has already been included in

the income statement. Changes in provisions for impairments attributable to the application of the effective interest rate method are recognized in interest income.

If the fair value of a financial asset available for sale increases in a subsequent period and the rise can be linked objectively to an event that occurred after the recognition of the impairment loss in the income statement, the impairment loss is reversed. However, if the fair value of an impaired equity instrument available for sale recovers in a subsequent period, the recovered amount is recognized in other comprehensive income.

#### **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 amount or, if lower, fair value less cost to sell. Non-current assets are no longer depreciated as soon as they are classified as held for sale. 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 benefits 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 the income statement.

#### **EMPLOYEE BENEFITS**

##### **Short-term employee benefits**

Short-term employment benefit obligations include wages, salaries and social security contributions, holiday pay, continued payment of wage in the event of illness, bonuses and remuneration in kind. These are expensed in the relevant period. Some of the Group's employees are eligible to a bonus, based on personal performance and

financial targets. The bonus amount recognized in the income statement is based on an estimation at the balance sheet date.

#### **Post employment benefits**

Post employment benefits include the pension plans. The Group provides post-retirement remuneration for some of its employees in the form of defined contribution plans.

#### **Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the income statement in the periods during which related services are rendered by employees.

#### **Share based payments and related benefits**

The stock option plan enables Group employees to acquire shares of the Company. The option exercise price is equal to the average of the closing price of the underlying shares over the thirty days prior to 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 valuation model. The amount expensed is determined based on the number of awards for which the service conditions in question are expected to be fulfilled.

To hedge its liabilities within the framework of the allocation of stock options to its Directors and executives the Group purchases its own shares at the specific times those options are allocated. This can occur by means of several purchases. These shares will be charged to equity on transaction date for the sum paid, including the related costs. When the options are exercised the shares are derecognized at the average price of the total package of shares purchased that were allocated to the options in question. The difference between the options exercise price and the average price of the shares in question is recognized directly in equity.

#### **Termination benefits**

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs of the restructuring. If benefits are payable more than twelve months after the reporting date, then they are discounted to their present value.

### **PROVISIONS**

A provision is recorded in the statement of financial position whenever the Group has an existing (legal or constructive) obligation as a result of a past event and where it is probable that the settlement of this obligation will result in an outflow 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 before the balance sheet date. 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 when

significant uncertainty exists as to the collection of the receivable, related costs and the possible return of the goods.

#### **Rental income**

Rental income is recognized in the income statement 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 regarded as accrued income in the statement of financial position and initially measured at fair value whenever reasonable certainty exists that they will be received and that the Group will fulfil 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.

#### **Finance income**

Finance income comprises interest received on investments, dividends, foreign exchange gains, the unwinding of receivables with regard to government grants and the profits on hedging instruments that are recognized in the income statement.

Interest income is recognized in the income statement pro rata temporis. Dividend income is included in the income statement on the date that the dividend is declared.

Foreign exchange gains and losses are compensated per currency.

### **EXPENSES**

#### **Payments relating to operating lease agreements**

Payments relating to operating lease agreements are taken into the income statement 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 expenses**

The finance expenses comprise interest to be paid on loans, foreign exchange losses, impairments with regard to tax shelter investments and losses on hedging instruments that are recognized in the income statement.

The rent component of payments on finance leases is taken into the income statement.

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

Foreign exchange gains and losses are compensated per currency.

### **INCOME TAXES**

Income tax expenses consist of current and deferred tax. Taxes are recorded in the income statement except where they relate to elements recorded directly in equity. In this case the taxes are recognized directly in equity as well.

Current tax consists of the expected tax payable on the taxable profit of the year, calculated using tax rates enacted or substantively enacted at the balance sheet date, as well as tax adjustments in respect of prior years.

The current tax receivables and liabilities are offset per tax jurisdiction in so far as there is a de jure enforceable right to balance the amounts recognized and an intention to settle the liability on a net basis or to realize the receivable at the same time as the liability is settled.

Deferred tax is recorded based on the balance sheet method, for all temporary differences between the taxable base and the carrying amount 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 subsidi-

aries 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 amount 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 statement of financial position 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.

The deferred tax receivables and liabilities are offset per tax jurisdiction in so far as there is a de jure enforceable right to balance the amounts recognized and an intention to settle the liability on a net basis or to realize the receivable at the same time as the liability is settled.

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 revenue and incur expenses, including revenue 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 amount 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.

## NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments and interpretations were not yet effective in the fiscal year ending 31 December 2014 and have therefore not been applied to the present consolidated financial statements.

**IFRIC 21 Levies** provides the circumstances in which a levy imposed by a government must be recognized in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. This interpretation, which must be applied retrospectively to the consolidated financial statements of 2015, will have no material impact on the consolidated financial statements of the Group, but the seasonality of the result during the year will be impacted as the moment of recognition of certain levies as debt and as cost during the period will change.

**IFRS 9 Financial Instruments**, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised stipulations with regard to the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements, which align hedge accounting more closely with risk management. Furthermore, IFRS 9 adopts the guidance from IAS 39 on recognition and derecognition. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted. This new standard has not yet been endorsed by the EU. The Group does not intend to early adopt this standard. The consequences for the consolidated financial statements have not been determined yet.

**IFRS 15 Revenue from contracts with customers** establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The standard replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for the annual reports beginning on or after 1 January 2017. Early adoption is permitted. This new standard has not yet been endorsed by the EU. The Group is currently assessing the potential impact on its consolidated financial statements.

**Amendments to IFRS – 2010-2012 cycle** is a collection of minor improvements to six existing standards. This collection, which becomes mandatory for the 2015 consolidated financial statements, is not expected to have a material impact on the Group's consolidated financial statements.

**Amendments to IFRS – 2011-2013 cycle** is a collection of minor improvements to four existing standards. This collection, which becomes mandatory for the 2015 consolidated financial statements, is not expected to have a material impact on the Group's consolidated financial statements.

**Amendments to IFRS – 2012-2014 cycle** is a collection of minor improvements to four existing standards. This collection, which becomes mandatory for the 2016 consolidated financial statements, is not expected to have a material impact on the Group's consolidated financial statements. These changes have not yet been endorsed by the EU.

**Amendments to IAS 19 Employee benefits – defined benefit plans: employee contributions** provides guidance on the recognition of the gain or loss when accounting for the sale or contribution of a subsidiary to an associate or joint venture. The amendments which become mandatory for the 2015 consolidated financial statements, are not expected to have a material impact on the Group's consolidated financial statements.

**Accounting for acquisitions of interests in joint operations (amendments to IFRS 11)** determines that when an entity acquires an interest in a joint operation that is a business, as defined in IFRS 3, it shall apply all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in this IFRS. The amendments which become mandatory for the Group's 2016 consolidated financial statements, are not expected to have a material impact on the Group's consolidated financial statements. These amendments have not yet been endorsed by the EU.

**Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)** provides guidelines with regard to the recognition of results as a consequence of the sale or contribution of a

subsidiary to an associate or a joint venture. These amendments, which must be applied to the consolidated financial statements of 2016, are expected to have no major impact on the consolidated financial statements of the Group. These amendments have not yet been ratified by the EU.

**Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)**

emphasizes that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. For intangible assets, only in limited circumstances revenue-based amortization can be permitted. The amendments which become mandatory for the 2016 consolidated financial statements, are not expected to have a material impact on the Group's consolidated financial statements. These amendments have not yet been endorsed by the EU.

There are no other standards or interpretations that are not yet effective in 2014 and that could have a material impact on 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.

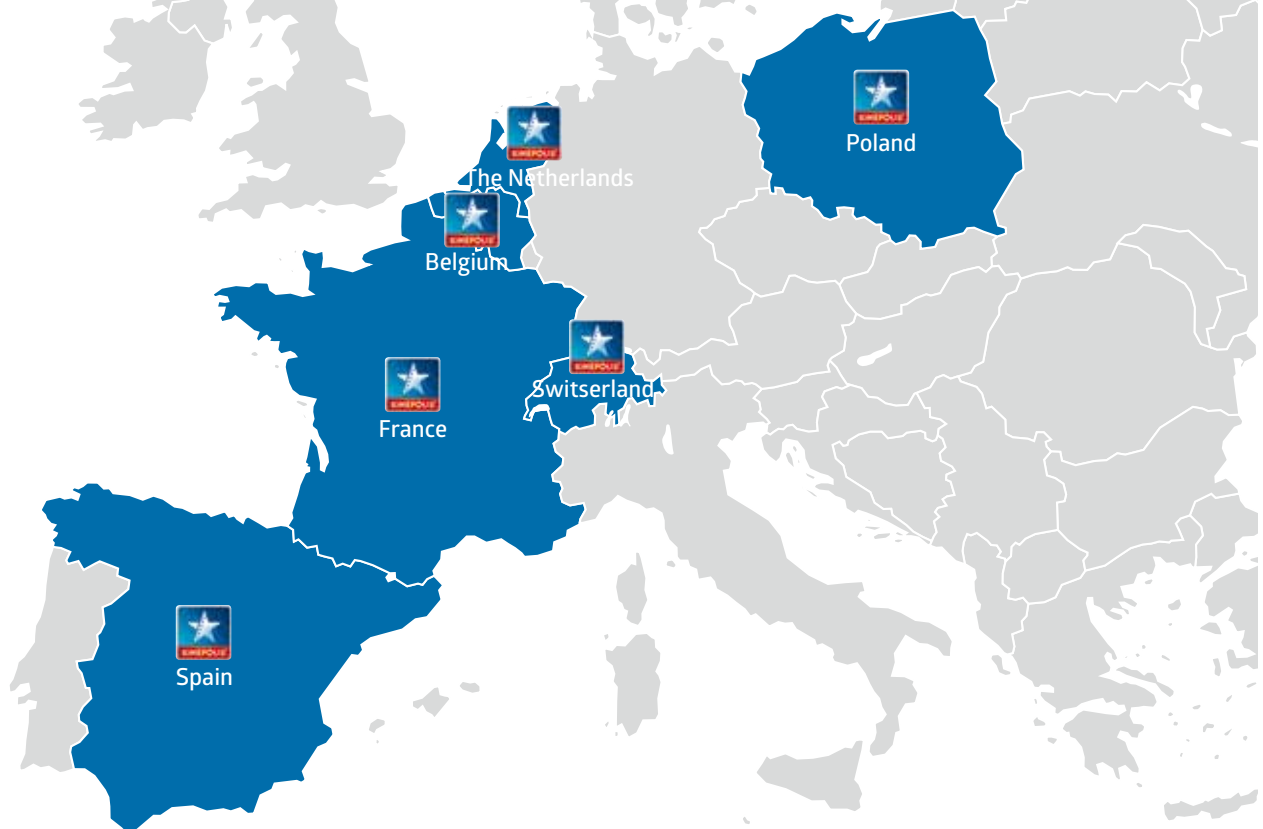
Financial income and cost, income tax expense and their related assets and liabilities are not monitored by segment by the Group's CEOs and CFO.

The capital expenditures 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, Spain and the Netherlands. 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.



## INCOME STATEMENT

IN '000 €	2014						TOTAL
	BELGIUM	FRANCE	SPAIN	THE NETHERLANDS	OTHER (POLAND & SWITZERLAND)	NOT ALLOCATED	
Segment revenue	172 752	61 323	33 582	9 887	4 084		281 628
Inter-segment revenue	-17 536	-805	-594		-74		-19 009
Revenue	155 216	60 518	32 988	9 887	4 010		262 619
Cost of sales	-104 052	-40 397	-26 224	-7 330	-2 773		-180 776
<b>Gross profit</b>	<b>51 164</b>	<b>20 121</b>	<b>6 764</b>	<b>2 557</b>	<b>1 237</b>		<b>81 843</b>
Marketing and selling expenses	-11 043	-2 504	-1 921	-422	-179		-16 069
Administrative expenses	-11 900	-1 432	-1 143	-831	-277		-15 583
Other operating income	148	650	13	5			816
Other operating expenses	-150	-157	-34	-1			-342
<b>Segment profit</b>	<b>28 219</b>	<b>16 678</b>	<b>3 679</b>	<b>1 308</b>	<b>781</b>		<b>50 665</b>
Finance income						2 390	2 390
Finance expenses						-6 685	-6 685
<b>Profit before tax</b>							<b>46 370</b>
Income tax expense						-11 203	-11 203
<b>PROFIT FOR THE PERIOD</b>							<b>35 167</b>

## STATEMENT OF FINANCIAL POSITION – ASSETS

IN '000 €	2014						TOTAL
	BELGIUM	FRANCE	SPAIN	THE NETHERLANDS	OTHER (POLAND & SWITZERLAND)	NOT ALLOCATED	
Other intangible assets	3 383	376	239				3 998
Goodwill	6 586	3 299	2 858	16 871	6 502		36 116
Property, plant and equipment	86 948	61 398	47 607	12 800	6 582		215 335
Investment property	14 444		6 721		11 463		32 628
Deferred tax assets						1 308	1 308
Other receivables	33	12 240	378	5			12 656
Other financial assets						27	27
<b>Non-current assets</b>	<b>111 394</b>	<b>77 313</b>	<b>57 803</b>	<b>29 676</b>	<b>24 547</b>	<b>1 335</b>	<b>302 068</b>
Inventories	2 110	737	491	220	78		3 636
Trade and other receivables	16 849	4 223	1 525	1 568	128		24 293
Current tax assets						40	40
Cash and cash equivalents						17 000	17 000
Derivative financial instruments						27	27
<b>Current assets</b>	<b>18 959</b>	<b>4 960</b>	<b>2 016</b>	<b>1 788</b>	<b>206</b>	<b>17 067</b>	<b>44 996</b>
<b>TOTAL ASSETS</b>	<b>130 353</b>	<b>82 273</b>	<b>59 819</b>	<b>31 464</b>	<b>24 753</b>	<b>18 402</b>	<b>347 064</b>

## STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

IN '000 €	2014						
	BELGIUM	FRANCE	SPAIN	THE NETHERLANDS	OTHER (POLAND & SWITZERLAND)	NOT ALLOCATED	TOTAL
Share capital and share premium						20 106	20 106
Consolidated reserves						86 304	86 304
Translation reserve						-1 678	-1 678
<b>Total equity attributable to owners of the Company</b>						<b>104 732</b>	<b>104 732</b>
<b>Non-controlling interests</b>							
<b>Equity</b>						<b>104 732</b>	<b>104 732</b>
Loans and borrowings						91 471	91 471
Provisions	2 181	316					2 467
Deferred tax liabilities						15 855	15 855
Derivative financial instruments							
Other payables		7 336	21				7 357
<b>Non-current liabilities</b>	<b>2 181</b>	<b>7 652</b>	<b>21</b>			<b>107 326</b>	<b>117 180</b>
Bank overdrafts						470	470
Loans and borrowings						44 095	44 095
Trade and other payables	46 853	14 753	6 078	3 830	780		72 294
Provisions	185	425					610
Derivative financial instruments							
Current tax liabilities						7 683	7 683
<b>Current liabilities</b>	<b>47 038</b>	<b>15 178</b>	<b>6 078</b>	<b>3 830</b>	<b>780</b>	<b>52 248</b>	<b>125 152</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>49 219</b>	<b>22 830</b>	<b>6 099</b>	<b>3 830</b>	<b>780</b>	<b>264 306</b>	<b>347 064</b>

## CAPITAL EXPENDITURE

IN '000 €	2014						
	BELGIUM	FRANCE	SPAIN	THE NETHERLANDS	OTHER (POLAND & SWITZERLAND)	NOT ALLOCATED	TOTAL
<b>CAPITAL EXPENDITURE</b>	<b>25 035</b>	<b>2 721</b>	<b>3 185</b>	<b>1 677</b>	<b>121</b>		<b>32 739</b>

## NON-CASH ELEMENTS

IN '000 €	2014						
	BELGIUM	FRANCE	SPAIN	THE NETHERLANDS	OTHER (POLAND & SWITZERLAND)	NOT ALLOCATED	TOTAL
Depreciation, amortization, provisions and impairments	11 637	5 210	2 765	561	465		20 638
Other	378	7	4				389
<b>TOTAL</b>	<b>12 015</b>	<b>5 217</b>	<b>2 769</b>	<b>561</b>	<b>465</b>		<b>21 027</b>

**INCOME STATEMENT**

IN '000 €	2013					
	BELGIUM	FRANCE	SPAIN	OTHER (POLAND & SWITZERLAND)	NOT ALLOCATED	TOTAL
Segment revenue	169 244	59 604	31 043	4 438		264 329
Inter-segment revenue	-16 734	-913	-628	-74		-18 349
Revenue	152 510	58 691	30 415	4 364		245 980
Cost of sales	-98 557	-39 509	-22 939	-2 864		-163 869
<b>Gross profit</b>	<b>53 953</b>	<b>19 182</b>	<b>7 476</b>	<b>1 500</b>		<b>82 111</b>
Marketing and selling expenses	-11 246	-1 997	-1 816	-181		-15 240
Administrative expenses	-10 838	-1 756	-759	-285		-13 638
Other operating income	1 079	664	1	937		2 681
Other operating expenses	-664	-158	-23			-845
<b>Segment profit</b>	<b>32 284</b>	<b>15 935</b>	<b>4 879</b>	<b>1 971</b>		<b>55 069</b>
Finance income					1 206	1 206
Finance expenses					-7 204	-7 204
<b>Profit before tax</b>						<b>49 071</b>
Income tax expense					-11 530	-11 530
<b>PROFIT FOR THE PERIOD</b>						<b>37 541</b>

**STATEMENT OF FINANCIAL POSITION – ASSETS**

IN '000 €	2013					
	BELGIUM	FRANCE	SPAIN	OTHER (POLAND & SWITZERLAND)	NOT ALLOCATED	TOTAL
Other intangible assets	2 389	388	239			3 016
Goodwill	6 586	3 299	2 374	6 502		18 761
Property, plant and equipment	89 614	64 062	46 712	6 483		206 871
Investment property				12 056		12 056
Deferred tax assets					1 113	1 113
Other receivables	33	13 087	275			13 395
Other financial assets					27	27
<b>Non-current assets</b>	<b>98 622</b>	<b>80 836</b>	<b>49 600</b>	<b>25 041</b>	<b>1 140</b>	<b>255 239</b>
Inventories	2 034	926	312	87		3 359
Trade and other receivables	18 630	5 069	1 240	237		25 176
Current tax assets					523	523
Cash and cash equivalents					19 293	19 293
Assets classified as held for sale			6 721			6 721
<b>Current assets</b>	<b>20 664</b>	<b>5 995</b>	<b>8 273</b>	<b>324</b>	<b>19 816</b>	<b>55 072</b>
<b>TOTAL ASSETS</b>	<b>119 286</b>	<b>86 831</b>	<b>57 873</b>	<b>25 365</b>	<b>20 956</b>	<b>310 311</b>

## STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

IN '000 €	2013					
	BELGIUM	FRANCE	SPAIN	OTHER (POLAND & SWITZERLAND)	NOT ALLOCATED	TOTAL
Share capital and share premium					20 106	20 106
Consolidated reserves					86 132	86 132
Translation reserve					-1 581	-1 581
<b>Total equity attributable to owners of the Company</b>					<b>104 657</b>	<b>104 657</b>
<b>Non-controlling interests</b>						
<b>Equity</b>					<b>104 657</b>	<b>104 657</b>
Loans and borrowings					87 917	87 917
Provisions	2 660	356				3 016
Deferred tax liabilities					17 509	17 509
Derivative financial instruments						
Other payables		8 015	89			8 104
<b>Non-current liabilities</b>	<b>2 660</b>	<b>8 371</b>	<b>89</b>		<b>105 426</b>	<b>116 546</b>
Bank overdrafts					581	581
Loans and borrowings					19 332	19 332
Trade and other payables	41 323	15 542	4 515	1 003		62 383
Provisions	267	448				715
Derivative financial instruments					60	60
Current tax liabilities					6 037	6 037
<b>Current liabilities</b>	<b>41 590</b>	<b>15 990</b>	<b>4 515</b>	<b>1 003</b>	<b>26 010</b>	<b>89 108</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>44 250</b>	<b>24 361</b>	<b>4 604</b>	<b>1 003</b>	<b>236 093</b>	<b>310 311</b>

## CAPITAL EXPENDITURE

IN '000 €	2013					
	BELGIUM	FRANCE	SPAIN	OTHER (POLAND & SWITZERLAND)	NOT ALLOCATED	TOTAL
<b>CAPITAL EXPENDITURE</b>	<b>6 320</b>	<b>3 445</b>	<b>2 118</b>	<b>154</b>		<b>12 037</b>

## NON-CASH ELEMENTS

IN '000 €	2013					
	BELGIUM	FRANCE	SPAIN	OTHER (POLAND & SWITZERLAND)	NOT ALLOCATED	TOTAL
Depreciation, amortization, provisions and impairments	11 578	5 497	2 363	499		19 937
Other	162	13	6			181
<b>TOTAL</b>	<b>11 740</b>	<b>5 510</b>	<b>2 369</b>	<b>499</b>		<b>20 118</b>

## 3. Revenue

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

IN '000 €	2013	2014
Box office	131 890	140 883
In-theatre sales	51 893	55 905
Business-to-business	38 910	38 586
Brightfish	11 174	12 430
Film distribution	3 355	4 923
Real estate	8 671	9 573
Technical department	87	319
<b>TOTAL</b>	<b>245 980</b>	<b>262 619</b>

The increase in box office revenue was driven by the expansion into the Netherlands and in Spain, partly offset by lower sales of 3D tickets and glasses and lower virtual print fee revenue.

In-theatre sales also increased thanks to the expansion in the Netherlands and Spain, as well as higher sales in France.

Business-to-business (B2B) revenue fell primarily due to the lower revenue from screen advertising in Belgium and France and fewer corporate events. Advertising budgets were spent differently due to the World Cup football. The screen advertising activity was also impacted by the downward pressure on prices from other media channels. The reduction was largely offset by higher revenue from the sale of cinema vouchers to companies and media campaigns with partners. The B2B activities of the cinemas acquired in the Netherlands and Spain also made a first positive contribution. Business-to-business revenue includes exchange deals for € 11.0 million (2013: € 8.2 million).

Brightfish generated lower revenue from screen advertising as a result of lower national advertising income, which was due to the World Cup football and pressure on prices from other media channels. Nevertheless, Brightfish's total revenue increased, after elimination of intra-group transactions, due to more events with partners.

Film distribution revenue increased. In 2014 KFD distributed films such as "The Wolf of Wall Street", "K3 Dierenhotel", "De Behandeling", "Marina", "Sinterklaas en het Pratende Paard", "The Loft", "Homefront" and "Halfweg". Revenue from video-on-demand and DVD distribution also increased. Received royalties were € 1.5 million (2013: € 0.6 million).

The higher real estate revenue was driven, among other things, by the lease of the Toison d'Or cinema building in Brussels (Belgium). The expansion in the Netherlands and the indoor playground that was opened in Madrid (Spain) also contributed, as did higher revenue from the lease of commercial spaces.

## 4. Other operating income and expenses

### OTHER OPERATING INCOME

IN '000 €	2013	2014
Government grants	1 121	724
Reversal of provisions	500	
Capital gains on disposal of property, plant and equipment	990	48
Other	70	44
<b>TOTAL</b>	<b>2 681</b>	<b>816</b>

#### 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 result over the useful life of the

related assets at € 0.6 million in 2014 (2013: € 0.7 million).

The Group also received training-related government grants for € 0.0 million (2013: € 0.5 million).

#### Reversal of provisions

The provision for the termination of lease agreements, set up in 2012, was reversed in 2013.

### Capital gains on disposal of property, plant and equipment

In 2013, the Group generated a capital gain of € 0.9 million,

after deduction of selling expenses, from the sale of part of the undeveloped site adjacent to the cinema in Poznań (Poland) to Porsche Inter Auto Polska for € 2.0 million.

### OTHER OPERATING EXPENSES

IN '000 €	2013	2014
Losses on disposal of property, plant and equipment	-80	-34
Losses on disposal of trade receivables	-243	-270
Accelerated depreciation of property, plant and equipment	-369	-33
Accelerated amortization of intangible assets	-100	
Other	-53	-5
<b>TOTAL</b>	<b>-845</b>	<b>-342</b>

### Accelerated amortization/depreciation of intangible assets and property, plant and equipment

In 2013 a number of assets under construction were taken to profit

or loss as a result of the changed project in Louvain (Belgium). Furthermore, licences that will no longer be used in the future were amortized on an accelerated basis in 2013 and 2014.

## 5. Personnel expenses and other social benefits

IN '000 €	2013	2014
Wages and salaries	-27 474	-31 218
Social security contributions	-7 893	-8 234
Employer contributions for employee insurances	-339	-475
Share-based payments	-181	-389
Other personnel expenses	-1 892	-2 316
<b>TOTAL</b>	<b>-37 779</b>	<b>-42 632</b>
Total full-time equivalents at balance sheet date	799	965

The increase in personnel expenses in 2014 is mainly due to the higher number of full-time equivalents at 31 December 2014. The rise in the number of full-time equivalents, due to Group's expansion in Spain and the Netherlands, is partly offset by improved efficiency in staff planning in the cinemas in all countries and the maximized use of temporary staff in Belgium. Personnel expenses also rose due to the restructuring of a number of departments in the various countries.

The personnel expenses include early retirement pensions, which, in accordance with IFRS, should be treated as termination benefits, as no reasonable expectation was generated among employees during hiring or employment that they would be entitled to an early retirement pension before the legal retirement age. It concerns immaterial amounts.

### Pension plans

A number of the Group's Belgian employees have a supplementary pension insurance.

Belgian law requires a return of at least 3.25% for the employer's contributions and at least 3.75% for employees' contributions, with any deficit being covered by the employer. The insurers confirmed as per end of 2014 that the annual

return is at least 3.25%, and therefore no provision has been established to cover any deficit. The benefit obligations are entirely covered by the plan assets.

The expenses related to these plans were € 0.3 million in 2014 and € 0.3 million in 2013. Expected contributions for 2015 amount to € 0.3 million.

The Group has opted for the "Intrinsic Value" method as accounting policy, which consists of calculating, for each member separately, the minimum guaranteed reserve (taking into account an interest rate of 3.75% for employee contributions and an interest rate of 3.25% for employer contributions) and the mathematical reserve, both at the financial reporting date. The guaranteed reserve is equal to the higher of the minimum guaranteed reserve and the mathematical reserve.

A deficit occurs when the guaranteed reserve is higher than the mathematical reserve. Based on below quantitative disclosures Kinopolis Group concluded there is no deficit in the plans compared to the minimum guaranteed return on contributions. In the event of a deficit, the Group will recognize a provision, representing the deficit compared to the minimum guaranteed return on contributions.

IN '000 €	2014
Mathematical reserves	3 492
Minimum guaranteed reserves	3 247
<b>SURPLUS</b>	<b>245</b>

The calculation of the liability takes into account the guaranteed minimum return only until the financial reporting date. The fact that the guaranteed minimum return must also be achieved in the future can have an impact on future cash flows.

The two main arguments in favour of the accounting policy choice are as follows:  
A strict application of the "Projected Unit Credit Method" (PUC Method), as currently prescribed by IAS 19, would require an assumption about the evolution of the minimum guaranteed return on future contributions in order to determine a best estimate of the projected benefits. If the best estimate of the

expected rate of return is the currently applicable guaranteed rate of return, this assumption could be viewed as incompatible with the other assumptions in a period of low discount rate.

The application of the PUC method also requests that the benefits could be determined on a projected basis. This is not the case since the return on contributions is equal to the maximum between the minimum guaranteed rate of return and the return realized by the fund. Further the minimum guaranteed return may also vary on legislative decision.

In the Netherlands there is a pension fund for the whole media industry, which includes a pension plan for the film and cinema industry. It concerns a "defined contribution" plan in which all employees of the Dutch entities, older than twenty, participate. Since the inclusion of the Dutch entities in the consolidation scope of the Group, the employer's contributions amounted to € 0.1 million.

## 6. Additional information on operating expenses by nature

Personnel expenses and other social benefits are charged to the following lines of the income statement:

IN '000 €	2013	2014
Cost of sales	-27 631	-30 942
Marketing and selling expenses	-3 808	-4 552
Administrative expenses	-6 340	-7 138
<b>TOTAL</b>	<b>-37 779</b>	<b>-42 632</b>

Depreciation and amortization are charged to the following lines of the income statement:

IN '000 €	2013	2014
Cost of sales	-18 541	-20 189
Marketing and selling expenses	-409	-515
Administrative expenses	-587	-585
Other operating expenses	-468	-33
<b>TOTAL</b>	<b>-20 005</b>	<b>-21 322</b>

## 7. Finance income and expenses

### FINANCE INCOME

IN '000 €	2013	2014
Interest income	21	12
Foreign exchange gains	97	82
Reclassification of fair value of derivative financial instruments ended in the past	10	
Change in fair value of contingent considerations		1 359
Unwinding of non-current government grants receivable	769	734
Other	309	203
<b>TOTAL</b>	<b>1 206</b>	<b>2 390</b>

For more information about the change in fair value of the contingent considerations, see notes 10 and 24.



## FINANCE EXPENSES

IN '000 €	2013	2014
Interest expenses	-5 081	-4 534
Foreign exchange losses	-85	-132
Impairments of tax shelter investments	-539	-433
Other	-1 499	-1 586
<b>TOTAL</b>	<b>-7 204</b>	<b>-6 685</b>

In 2014, the Group paid less interest due to the maturity of the last interest rate swap, at a higher fixed interest rate than the market interest, on 30 March 2014.

The fair value of the interest rate swaps transferred from equity to the income statement (interest expenses) was € -0.1 million (2013: € -0.5 million).

The total costs with regard to the refinancing of the Group in 2012 were € 1.1 million. These are recognized in the income statement pro rata temporis at € 0.2 million in 2014 (2013: € 0.2 million) and are included in the interest expenses.

The other finance expenses mainly concern banking costs. These also include commitment fees with regard to the credit agreement concluded by the Group in 2012 (see Note 24) at € 0.3 million (2013: € 0.3 million).

## 8. Income tax expense

IN '000 €	2013	2014
Current tax expense	-11 999	-13 436
Deferred tax expense	469	2 233
<b>TOTAL</b>	<b>-11 530</b>	<b>-11 203</b>

### Effective tax rate reconciliation

IN '000 €	2013	2014
Profit before tax	49 071	46 370
<b>Belgian tax rate</b>	<b>33.99%</b>	<b>33.99%</b>
Income tax using the Company's domestic tax rate	-16 679	-15 761
Effect of tax rates in foreign jurisdictions	227	108
Non-deductible expenses	-962	-780
Tax-exempt income	4 145	4 062
Use of unrecognized losses and tax losses for which no deferred tax asset was recognized	1 838	1 393
Under/(over) provided in prior periods	146	306
Other adjustments	-245	-531
<b>TOTAL</b>	<b>-11 530</b>	<b>-11 203</b>
<b>Effective tax rate</b>	<b>23.50%</b>	<b>24.16%</b>

The effective tax rate was 24.16% in 2014 (2013: 23.50%). The higher taxes are primarily due to lower tax losses carried forward, lower notional interest deduction and investments in tax sheltering and the impact of the fairness tax. This increase was largely offset by the lower profit before tax and a one-off impact as a consequence of a planned structural change.

The notional interest deduction and the fiscal treatment of tax shelters, as included, among other things, in tax-exempt

income, had a positive impact on the tax burden in both 2014 and 2013.

The "Other adjustments" primarily relate to income tax with regard to current and future intra-group dividend payments and the fairness tax.

### Deferred tax recognized directly in equity

Deferred tax profit of € 0.0 million was directly recognized in equity (2013: € 0.2 million).

## 9. Other intangible assets

IN '000 €	PATENTS AND LICENSES	OTHER	INTERNALLY DEVELOPED INTANGIBLE ASSETS	TOTAL
Acquisition value	1 721	5 564	1 979	9 264
Amortization and impairment losses	-1 154	-3 640	-1 155	-5 949
<b>NET CARRYING AMOUNT AT 31/12/2012</b>	<b>567</b>	<b>1 924</b>	<b>824</b>	<b>3 315</b>
Acquisitions	704		247	951
Transfer from / to other categories	1 493	-1 293	-190	10
Amortization	-813	-134	-313	-1 260
Acquisition value	6 775	1 110	1 701	9 586
Amortization and impairment losses	-4 824	-613	-1 133	-6 570
<b>NET CARRYING AMOUNT AT 31/12/2013</b>	<b>1 951</b>	<b>497</b>	<b>568</b>	<b>3 016</b>
Acquisitions	1 887		282	2 169
Transfer from / to other categories	177		2	179
Amortization	-698	-134	-534	-1 366
Acquisition value	8 840	1 111	1 985	11 936
Amortization and impairment losses	-5 523	-748	-1 667	-7 938
<b>NET CARRYING AMOUNT AT 31/12/2014</b>	<b>3 317</b>	<b>363</b>	<b>318</b>	<b>3 998</b>

The patents and licenses mainly comprise software purchased from third parties. The internally developed intangible assets concern the software for the ticketing system of the Group.

The acquisitions in 2014 mainly concern the expenditures for the renewal of the front office software of the Group for € 1.7 million. These comprise internal hours worked for € 0.3 million and purchases from third parties for € 1.4 million.

The transfer from the other intangible assets to patents and licenses in 2013 concerns software reported together with the other software of the Group since then.

In 2014 licenses were amortized on an accelerated basis for € 0.4 million, as they will no longer be used (2013: € 0.1 million). This amount is part of the cost of sales (2013: other operating expenses).

## 10. Goodwill and business combinations

### GOODWILL

IN '000 €	2013	2014
<b>BALANCE AT END OF PREVIOUS PERIOD</b>	<b>18 761</b>	<b>18 761</b>
Acquisitions through business combinations		17 355
Impairment losses		
Disposals		
<b>BALANCE AT END OF CURRENT PERIOD</b>	<b>18 761</b>	<b>36 116</b>

The acquisitions through business combinations are discussed elsewhere in these notes (see Business combinations).

At the end of 2014, as every year in this period, a review was performed to identify any indications of impairment of non-financial assets. During this review the Group considered, among other things, the economic situation, 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.

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.

No impairments were recognized on the basis of the impairment tests performed.

The impairment tests were as always performed at country level, also the operational segments of the Group. Management monitors the Group at country level. This is also the level at which goodwill is monitored for internal management purposes. 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 websites which are organized at country level;
- ★ The pricing of tickets, refreshments and snacks is set at country level;
- ★ Marketing contributions by distributors are negotiated on a country by country basis.
- ★ Screen advertising is managed on a 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 complex and at country level.

In the impairment tests the value in use was taken into consideration. For all cash generating units the value in use was defined by discounting the future cash flows calculated

over the period 2015 to 2034, based on the budget for 2015. 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 2016 to 2034 the data of the 2015 budget for all cash flow generating units were extrapolated on the basis of the following assumptions:

- ★ The visitor figures were determined based on historically low numbers;
- ★ EBITDA grows by 1% annually, presuming that the Group is able to take further measures to increase the margin;
- ★ The maintenance capital expenditures are based on the historical run rate and increase by 1% every year as from 2016.

The projections are performed in the functional currency of the relevant country and discounted at the country's weighted average cost of capital. The proposed weighted average cost of capital is 4.93% for Belgium, France and the Netherlands, 6.05% for Spain and 5.67% for Poland and 4.83% for Switzerland (2013: 6.75% for Belgium, France, Switzerland, 6.95% for Spain and 5.54% for Poland), determined on the basis of the following theoretical parameters:

	2013				2014			
	RISK-FREE INTEREST RATE	MARKET RISK PREMIUM	BETA	PROPOSED COST OF DEBT <sup>(1)</sup>	RISK-FREE INTEREST RATE	MARKET RISK PREMIUM	BETA	PROPOSED COST OF DEBT <sup>(1)</sup>
Belgium	6.00%	5.25%	1.05	6.72%	3.30%	5.03%	1.00	4.75%
France	6.00%	5.25%	1.05	6.72%	3.30%	5.03%	1.00	4.75%
Spain	6.00%	5.33%	1.16	6.72%	5.00%	5.03%	1.16	5.71%
Netherlands					3.30%	5.03%	1.00	4.75%
Switzerland	6.00%	5.25%	1.05	6.72%	3.30%	5.03%	1.00	4.06%
Poland	6.00%	5.25%	1.05	5.00%	3.30%	5.03%	1.00	6.18%

(1) Before tax

These percentages are tested annually against the weighted average cost of capital based on the parameters used by the analysts that monitor the share of the Group, taking into account the specific circumstances in each country. There was a significant margin each time. The weighted average cost of capital before tax is 5.83% for Belgium, France and the Netherlands, 7.25% for Spain, 5.34% for Switzerland and 6.61% for Poland (2013: 8.16% for Belgium, France and Switzerland, 8.36% for Spain and 6.30% for Poland). These percentages before tax do not differ strongly from the iterative calculation.

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 amount of the cash generating units that would materially exceed their recoverable amount. Sensitivity analyses were performed with regard to the various parameters. An example is given below.

A further possible increase in the cost of debt before tax from 4.75% to 7.00% results in a 1.15% increase in the weighted average cost of capital. This possible change would not lead to the need to recognize an impairment.

## Goodwill per cash generating unit

IN '000 €	2013	2014
Belgium	6 586	6 586
France	3 299	3 299
Spain	2 374	2 858
The Netherlands		16 871
Poland	6 502	6 502
<b>TOTAL</b>	<b>18 761</b>	<b>36 116</b>

## BUSINESS COMBINATIONS

### Acquisition of the Spanish cinemas Abaco Cinebox and Abaco Alcobendas

On 1 April and 11 June 2014 the Group acquired control of the Spanish cinemas Abaco Cinebox (Alicante) and Abaco Alcobendas (Madrid), the two largest cinemas of the former Spanish cinema group Abaco Cinebox. Kinopolis targets a recovery of its historic visitor numbers in Spain and thus a better coverage of its general operating costs. Agreement was reached with the liquidators on the sale of both cinemas, for € 1.1 million. The transactions were ratified by the competent judicial authorities. Furthermore, the Group entered into new lease agreements with the property owners of these cinemas, the conditions of which are linked to visitor numbers. In 2013 the two cinemas together welcomed 926 000 visitors. In the future Kinopolis aims to achieve an EBITDA contribution of € 1 to € 1.5 per visitor for these leased cinemas.

The inclusion of the Spanish cinemas Abaco Cinebox (Alicante) and Abaco Alcobendas (Madrid) in the consolidation scope of the Group in April 2014 (Kinopolis Plaza Mar 2) and June 2014 (Kinopolis Alcobendas), the dates on which control was acquired, resulted in a goodwill of € 0.5 million. The origin of this goodwill is the targeted visitor potential of both cinemas.

The transaction costs linked to this acquisition were € 0.2 million and were recognized in profit and loss as part of the administrative costs.

Since the inclusion of the two cinemas in the consolidation scope, they have contributed € 4.3 million to revenue and € 0.1 million to the result of the Group. If the acquisition had occurred on 1 January 2014, management estimates that the consolidated revenue would have been € 265.2 million and the consolidated result of 2014 would have amounted to € 35.2 million.

### Acquisition of the Dutch Wolff Bioscopen group

On 22 July 2014 the Group acquired 100% of the shares of the Wolff Bioscopen group. Kinopolis acquired nine cinemas in the Netherlands (Huizen, Groningen, two sites in Enschede, Rotterdam, Nieuwegein and three sites in Utrecht). Kinopolis also acquired two new construction projects, one multiplex in Utrecht and one multiplex in Dordrecht. The Wolff group is also active as a film programmer and purchasing center for third party cinemas, a business that has also been acquired.

By acquiring Wolff Bioscopen the Group added a new country to its existing portfolio of cinemas in Belgium, France, Spain, Switzerland and Poland.

The Wolff cinemas in operation at year-end welcomed 1.6 million visitors in 2013. The cinemas are leased from third parties. In 2013 all Wolff cinemas together generated a normalized EBITDA of € 2.1 million.

A fixed consideration of € 10.6 million was paid for the existing Wolff cinemas, the film programming and purchasing centre activities and the projects in progress in Utrecht and Dordrecht. The value of this amount remains subject to change because a number of price adjustments at acquisition date could not be fully determined yet. The initial accounting for this business combination has therefore not yet been completed.

The contract also stipulated a number of contingent considerations, depending on the following factors:

- ★ Whether or not the new-build project in Utrecht will be completed;
- ★ Whether or not an amended planning permission will be obtained for the new construction project in Utrecht;
- ★ The actual number of visitors of the new cinema in Utrecht, three years after opening;
- ★ Whether or not the leases of the existing cinemas in Utrecht, Nieuwegein and Rotterdam are cancelled by the owner within a given term.

The fair value of the contingent considerations at acquisition date was € 5.5 million. This amount was determined on the basis of the following assumptions:

- ★ The new-build project in Utrecht will be granted in accordance with the wishes of the Group;
- ★ The number of visitors of the new future cinema in Utrecht, three years after opening, will be in line with the original business plan;
- ★ The leased cinemas in Utrecht, Nieuwegein and Rotterdam shall not close early.

The contingent considerations could be no less than € -1.8 million (to be received) and no more than € 6.5 million (to be paid) on the acquisition date.

At 31 December 2014 the fair value of the contingent considerations was € 4.2 million. The number of visitors of the future cinema in Utrecht will probably be lower than in the original business plan due to the arrival of a competitive project near by. Furthermore, the Group must vacate one of the leased premises in Utrecht (Camera) before the agreed term. These are events occurring after the acquisition date. The changes in the fair value of the contingent considerations were recognized in the income statement under finance income. For more information about the fair value of the contingent considerations, see Note 24.

#### Net identifiable assets and liabilities

IN '000 €	1/04/2014	11/06/2014	22/07/2014
	ABACO CINEBOX	ABACO ALCOBENDAS	WOLFF BIOSCOPEN
Property, plant and equipment	300	266	11 667
Non-current other receivables			5
Inventories			137
Current trade and other receivables			1 140
Cash and cash equivalents			1 142
Non-current loans and borrowings			-9 162
Deferred tax liabilities			-356
Current loans and borrowings			-2 465
Current trade and other payables			-2 889
Current tax liabilities			-11
<b>TOTAL</b>	<b>300</b>	<b>266</b>	<b>-792</b>

Property, plant and equipment and loans and borrowings concern the lease of the cinema complex in Groningen for € 9.3 million, which was classified as a finance lease (see note 11).

The inclusion of the Wolff Bioscopen group in the consolidation scope of the Group on 22 July 2014, the date on which control was acquired, resulted in goodwill of € 16.9 million. The origin of this goodwill is the targeted visitor potential of the existing cinema and the new-build projects in Dordrecht and Utrecht.

Kinepolis wishes to further strengthen its position in the Netherlands. In this context, the Group itself developed a new cinema project in Breda.

The acquired cinemas, together with the three ongoing new-build projects, are expected to enable the Group to attract between 3 million and 3.5 million visitors over three years, largely in cinemas housed in property controlled by the Group.

The transaction costs linked to this acquisition were € 0.5 million and were recognized in profit and loss as part of the administrative costs.

Since the inclusion of the Wolff Bioscopen group in the consolidation scope, it has contributed € 9.9 million to revenue and € 0.4 million to the result of the Group. If the acquisition had occurred on 1 January 2014, management estimates that the consolidated revenue would have been € 272.5 million and the consolidated result of 2014 would have amounted to € 35.6 million.

The nominal value of the trade receivables of the Wolff Bioscopen group on the acquisition date was € 0.8 million. € 0.0 million thereof was deemed uncollectable.

## Goodwill calculation and reconciliation with the consolidated statement of cash flows

IN '000 €	ABACO CINEBOX	ABACO ALCOBENDAS	WOLFF BIOSCOPIEN	TOTAL
<b>NET IDENTIFIABLE ASSETS AND LIABILITIES</b>	<b>300</b>	<b>266</b>	<b>-792</b>	<b>-226</b>
Cash (1)	300	750	10 560	11 610
Contingent considerations			5 519	5 519
<b>REMUNERATION</b>	<b>300</b>	<b>750</b>	<b>16 079</b>	<b>17 129</b>
<b>GOODWILL</b>		<b>484</b>	<b>16 871</b>	<b>17 355</b>
Acquired cash (2)			1 142	1 142
<b>ACQUISITION OF SUBSIDIARIES, NET OF ACQUIRED CASH, IN THE STATEMENT OF CASH FLOWS (1) - (2)</b>	<b>300</b>	<b>750</b>	<b>9 418</b>	<b>10 468</b>

This goodwill is not tax-deductible.

## 11. Property, plant and equipment

IN '000 €	LAND AND BUILDINGS	PLANT, MACHINERY & EQUIPMENT	ASSETS UNDER CONSTRUCTION	TOTAL
Acquisition value	327 211	174 440	910	502 561
Depreciation and impairment losses	-153 938	-134 154	-43	-288 135
<b>NET CARRYING AMOUNT AT 31/12/2012</b>	<b>173 273</b>	<b>40 286</b>	<b>867</b>	<b>214 426</b>
Acquisitions	3 972	6 043	1 044	11 059
Sales and disposals	-32	-43		-75
Transfer from / to other categories	225	118	-353	-10
Depreciation	-9 019	-9 031	-368	-18 418
Effect of exchange rate fluctuations	-107	-4		-111
Acquisition value	330 945	179 792	1 192	511 929
Depreciation and impairment losses	-162 633	-142 423	-2	-305 058
<b>NET CARRYING AMOUNT AT 31/12/2013</b>	<b>168 312</b>	<b>37 369</b>	<b>1 190</b>	<b>206 871</b>
Acquisitions	4 467	10 820	716	16 003
Sales and disposals	-9	-267	-3	-279
Acquisitions through business combinations	9 656	2 001	576	12 233
Transfer from / to other categories	605	202	-987	-180
Depreciation	-9 545	-9 870	-33	-19 448
Effect of exchange rate fluctuations	129	6		135
Acquisition value	351 416	198 290	1 459	551 165
Depreciation and impairment losses	-177 801	-158 029		-335 830
<b>NET CARRYING AMOUNT AT 31/12/2014</b>	<b>173 615</b>	<b>40 261</b>	<b>1 459</b>	<b>215 335</b>

### Acquisitions

In 2014 the acquisitions included, among other things, maintenance capital expenditures, the installation of laser projectors and Dolby Atmos sound systems in the Group's four megaplexes, the first phase of the remodeling of the acquired cinemas in Spain, the purchase of the land in Dordrecht (the Netherlands) on which a new cinema will be built, the construction of the new indoor playground in Madrid (Spain) and the second part of the renovation of the cinema in Louvain (Belgium).

### Sales and disposals

The sales and disposals within Plant, Machinery and Equipment mainly concern the disposal of old projectors in the new Spanish multiplexes.

### Leased plant, machinery and equipment

In 2010 the Group's existing digital projectors were sold to a third party at net carrying amount and leased back for a period of six years. A number of new digital projects were also leased.

In 2014 no more new digital projectors were leased under this sale and lease-back agreement (2013: € 0.3 million). The carrying amount of these leased machines and equipment was € 6.4 million at 31 December 2014 (2013: € 8.0 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.

The lease on the complex in Groningen was renegotiated, commencing on the date of acquisition of Wolff Bioscopen by the Group, for a period of 17 years, renewable for consecutive periods of 5 years, unless one of the parties gives notice. As well as a fixed amount, a variable rent is charged, if the annual number of visitors of the operated cinema exceeds a certain threshold. Given that the present value of the minimal lease payments at the start of the new contract was virtually equal to the fair value of the leased asset, this lease was classified as a finance lease and recognized in the statement of financial position of the Group as part of land and buildings, for € 9.3 million. The fair value of the leased building was estimated on the basis of its market value. At 31 December 2014 the net carrying amount was € 9.1 million.

The digital projectors of the acquired Wolff Bioscopen group were sold to a third party at acquisition price in 2011 and leased back for a period of up to ten years. The counter party in this transaction acts as central management organization with regard to the various parties involved in the collective digitization of the Dutch film industry. The aim of these transactions was to use the structure of the buyer by which investments in digital equipment can be partly earned back with the cooperation of the film distributors.

In exchange for Wolff Bioscopen declining the contribution of the industry in the investments in digital equipment a lower rent is charged for the digital projectors. The projectors will become the Group's property as soon as the investment has been earned back by the buyer. If the contract is prematurely ended by the Group, the leased assets must be repurchased at their carrying amount increased with a fine. At 31 December 2014 the net carrying amount of the projectors was € 0.4 million.

In 2014 new digital projectors and servers were installed in the acquired cinemas in Alicante and Madrid (Spain). These projection systems are leased from a third party for a maximum period of 10 years at 20% of the total investment amount. In exchange for an 80% discount, the Group abandoned its virtual print fee revenue to recover its investment in these digital projection systems to a third party, which acts as integrator with regard to the various parties involved in the digitisation of the Spanish film industry. Furthermore, a variable consideration is charged if the agreed average projection ratio is not achieved. At the end of the contract the Group will become the owner of the projection systems without any further settlement. In the event of premature ending of the contract by the Group, Kinopolis must pay the unrecovered investment costs. At 31 December 2014 the net carrying amount of these assets was € 0.3 million.

For more information about the related finance lease liabilities, see Note 21.

#### **Write-off of assets under construction**

In 2013 the assets under construction with regard to a changed project in Louvain (Belgium) were written off for € 0.4 million. This write-off was part of the other operating expenses.

## 12. Investment property

IN '000 €	LAND AND BUILDINGS	PLANT, MACHINERY & EQUIPMENT	ASSETS UNDER CONSTRUCTION	TOTAL
Acquisition value	15 832	520		16 352
Depreciation and impairment losses	-4 484	-419		-4 903
<b>NET CARRYING AMOUNT AT 31/12/2012</b>	<b>11 348</b>	<b>101</b>		<b>11 449</b>
Acquisitions	27			27
Depreciation	-310	-16		-326
Transfer from assets classified as held for sale	1 038			1 038
Effect of exchange rate fluctuations	-131	-1		-132
Acquisition value	16 706	513		17 219
Depreciation and impairment losses	-4 734	-429		-5 163
<b>NET CARRYING AMOUNT AT 31/12/2013</b>	<b>11 972</b>	<b>84</b>		<b>12 056</b>
Acquisitions	14 638			14 638
Depreciation	-492	-16		-508
Transfer from assets classified as held for sale	6 721			6 721
Effect of exchange rate fluctuations	-277	-2		-279
Acquisition value	37 655	498		38 153
Depreciation and impairment losses	-5 093	-432		-5 525
<b>NET CARRYING AMOUNT AT 31/12/2014</b>	<b>32 562</b>	<b>66</b>		<b>32 628</b>

Since 18 January 2007 the land, buildings, machines and equipment in Poznań (Poland) are no longer used for Kinopolis' own operations, but 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 transferred to this heading. In 2012 the Group received a new bank guarantee on first demand for € 0.2 million from Cinema City. In exchange the Group will assume future renovation costs of € 0.1 million at the Polish complex.

In 2012 part of the land in Poznań (Poland) was transferred to assets classified as held for sale for € 1.9 million, because this land was expected to be sold within the year. In 2013 part of this land was sold as planned. The unsold part was transferred back to investment property for € 1.0 million.

The total carrying amount of the investment property in Poland is € 11.5 million.

The main purchases in 2014 were the acquisition of the building that houses ten cinema screens of UGC Toison d'Or. The group took the place of the previous owner, Immobilière de la Toison d'Or, as lessor and did not gain

control of the operations of the cinema. UGC will continue to operate Toison d'Or completely independently.

The purchase option on land in Valencia (Spain) granted to a third party until the end of 2014 was not exercised (see Note 17). Therefore, this land was again recognized under investment property in the statement of financial position for € 6.7 million.

Rental income from investment property was € 1.5 million (2013: € 1.1 million). The increase in rental income is due to the acquisition of the new Toison d'Or cinema building in Brussels (Belgium). The direct operating charges (including repairs and maintenance) ensuing from investment property were € 0.6 million (2013: € 0.3 million). The direct operating costs increased due to the acquisition of the new Toison d'Or cinema building in Brussels (Belgium).

### Fair value

The fair value of the investment property is measured annually by independent experts. The external experts possess the requisite recognized professional qualifications and experience in appraising real estate at the locations and in the categories concerned.



The fair value of the investment property was € 41.9 million (2013: € 20.6 million). The increase in the fair value compared to 2013 is due to the transfer of part of the land in Valencia (Spain) from assets classified as held for sale to investment property, as its sale within one year was no longer highly probable, and the purchase of the Toison d'Or cinema building in Brussels (Belgium).

The fair value of the investment property is recognized as a level 3 fair value based on the unobservable inputs that were used for the measurement.

The market approach is used for the measurement of the fair value of the land and buildings. The independent

experts base the used price per square meter on their knowledge of the market and information on market transactions with regard to comparable assets.

The size, characteristics, location and layout of the land and buildings and the destination of the area in which they are situated are also taken into consideration. When determining the fair value of the buildings, their accessibility and visibility from the street are also taken into account. The fair value of the other assets that are part of investment property is measured on the basis of the cost approach, in which the current replacement value of the assets is adjusted to account for physical, functional and economic obsolescence.

## 13. Deferred tax

The deferred tax assets and liabilities recognized in the statement of financial position can be attributed as follows:

IN '000 €	2013			2014		
	ASSETS	LIABILITIES	DIFFERENCE	ASSETS	LIABILITIES	DIFFERENCE
Property, plant and equipment and other intangible assets	781	-18 926	-18 145	851	-18 824	-17 973
Receivable CNC government grants	1 494		1 494	1 249		1 249
Inventories	3		3	8	-3	5
Trade and other receivables	59	-6	53	79	-9	70
Provisions		-158	-158		-161	-161
Deferred CNC government grants	411	-499	-88	596	-376	220
Derivative financial instruments through equity	20		20		-9	-9
Tax losses carried forward and other deferred tax assets	1 748		1 748	3 063		3 063
Trade and other payables	67		67	88		88
Investments in subsidiaries		-1 390	-1 390		-1 099	-1 099
<b>TOTAL</b>	<b>4 583</b>	<b>-20 979</b>	<b>-16 396</b>	<b>5 934</b>	<b>-20 481</b>	<b>-14 547</b>
Tax offsetting	-3 470	3 470		-4 626	4 626	
<b>NET DEFERRED TAX ASSETS AND LIABILITIES</b>	<b>1 113</b>	<b>-17 509</b>	<b>-16 396</b>	<b>1 308</b>	<b>-15 855</b>	<b>-14 547</b>

The increase in the deferred tax assets attributed to tax losses carried forward is due to the one-off recognition of a deferred tax receivable as a result of a scheduled change in structure.

### Temporary differences for which no deferred tax assets are recognized

No deferred tax asset was recognized in the statement of financial position in respect of tax losses carried forward and unused tax credits that would result in a deferred tax asset in an amount of € 5.5 million (2013: € 5.7 million), because it is improbable that sufficient taxable profit will be

available in the foreseeable future to be able to benefit from the tax gain. The tax losses carried forward can be carried forward to an unlimited degree in Belgium. In Switzerland the losses can be carried forward for 7 years.

### Temporary differences for which deferred tax liabilities are recognized

In 2014 a deferred tax liability of € 1.1 million was recognized with regard to all distributable reserves in the subsidiaries of the Group (2013: € 1.4 million). This deferred tax liability was allocated to the investments in subsidiaries in the table above.

## Changes in deferred tax balances during the year

IN '000 €	2012	RECOGNIZED IN PROFIT AND LOSS	RECOGNIZED IN OTHER COMPREHENSIVE INCOME	2013	RECOGNIZED IN PROFIT AND LOSS	RECOGNIZED IN OTHER COMPREHENSIVE INCOME	2014
Property, plant and equipment and other intangible assets	-17 826	-319		-18 145	172		-17 973
Receivable CNC government grants	1 751	-257		1 494	-245		1 249
Inventories	4	-1		3	2		5
Trade and other receivables		53		53	17		70
Provisions	-154	-4		-158	-3		-161
Deferred CNC government grants	-395	307		-88	308		220
Derivative financial instruments through equity	215		-195	20		-29	-9
Tax losses carried forward and other deferred tax assets	1 159	589		1 748	1 315		3 063
Trade and other payables	114	-47		67	21		88
Investments in subsidiaries	-1 537	147		-1 390	291		-1 099
<b>TOTAL</b>	<b>-16 669</b>	<b>468</b>	<b>-195</b>	<b>-16 396</b>	<b>1 878</b>	<b>-29</b>	<b>-14 547</b>

## 14. Inventories

IN '000 €	2013	2014
3D glasses	856	860
Goods purchased for resale in the multiplexes	1 041	1 520
Components inventory technical department	1 403	1 206
Other	59	50
<b>TOTAL</b>	<b>3 359</b>	<b>3 636</b>

The cost of sales of inventories recognized in the income statement was € 14.9 million (2013: € 13.9 million).

## 15. Trade and other receivables

### Non-current other receivables

IN '000 €	2013	2014
Cash guarantees	850	958
Other receivables	12 545	11 698
<b>TOTAL</b>	<b>13 395</b>	<b>12 656</b>

All non-current other receivables relate to the sector-related government grants that can be obtained in France from the CNC based on the number of visitors.

The increase in the cash guarantees mainly concerns two new rental guarantees with regard to the acquired cinemas in Alicante and Madrid (Spain) for € 0.2 million.

### Current trade and other receivables

IN '000 €	2013	2014
Trade receivables	20 968	19 620
Taxes receivable, other than income taxes	625	1 335
Deferred charges and accrued income	90	81
Tax shelter receivables	603	576
Tax shelter investments	396	391
Other receivables	2 494	2 290
<b>TOTAL</b>	<b>25 176</b>	<b>24 293</b>

The rise in the tax receivables, other than income taxes, concerns higher VAT receivables in 2014 as a consequence of the acquisition of the Wolff Bioscopen group in the Netherlands.

The tax shelter receivables concern the loans made to third parties to finance and support the film production in Belgium.

The 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 sector-related government grants (CNC) for € 1.7 million (2013: € 1.9 million). The other current receivables do not include any financial assets.

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

IN '000 €	2013			2014		
	GROSS CARRYING AMOUNT	IMPAIRMENT	NET CARRYING AMOUNT	GROSS CARRYING AMOUNT	IMPAIRMENT	NET CARRYING AMOUNT
Not yet due on reporting date	31 945	-7	31 938	32 538	-2	32 536
Less than 30 days past due	5 229	-74	5 155	3 236	-61	3 175
Between 31 and 120 days past due	1 197	-94	1 103	920	-39	881
Between 120 days and 1 year past due	883	-729	154	1 180	-930	250
Over 1 year past due	1 150	-929	221	847	-740	107
<b>TOTAL</b>	<b>40 404</b>	<b>-1 833</b>	<b>38 571</b>	<b>38 721</b>	<b>-1 772</b>	<b>36 949</b>

#### Movement in the allowance for impairment of trade receivables

IN '000 €	2013	2014
<b>BALANCE AT END OF PREVIOUS PERIOD</b>	<b>-1 569</b>	<b>-1 833</b>
Recognized impairments	-488	-673
Utilized impairments	133	279
Reversed impairments	91	451
Effect of exchange rate fluctuations		4
<b>BALANCE AT END OF CURRENT PERIOD</b>	<b>-1 833</b>	<b>-1 772</b>

The recognized, utilized and reversed impairments are part of the cost of sales for € -0.0 million (2013: € -0.2 million) and the marketing and selling expenses for € 0.1 million (2013: € -0.1 million).

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 €	2013	2014
Current investments (less than 3 months)	180	
Cash at bank and in hand	19 113	17 000
<b>TOTAL</b>	<b>19 293</b>	<b>17 000</b>
Bank overdrafts considered as cash and cash equivalents in the statement of cash flows	-581	-470
<b>CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS</b>	<b>18 712</b>	<b>16 530</b>

## 17. Assets classified as held for sale

IN '000 €	2013	2014
<b>BALANCE AT END OF PREVIOUS PERIOD</b>	<b>8 673</b>	<b>6 721</b>
Sales and disposals	-867	
Transfer to / from other categories	-1 038	-6 721
Effect of exchange rate fluctuations	-47	
<b>BALANCE AT END OF CURRENT PERIOD</b>	<b>6 721</b>	

In 2012 part of the land in Poznań (Poland) was transferred from investment property to assets classified as held for sale for € 1.9 million, because there were concrete plans to sell this land within the year. In 2013 part of this land was sold to Porsche Inter Auto Polska for € 2.0 million. The rest of the land, for € 1.0 million, was transferred back to investment property, as its sale within the year was no longer probable.

On 31 December 2013 the assets held for sale consisted of the land in Valencia (Spain), where the Group had granted a purchase option on this land to a third party until the end of 2014. This option has not been exercised in 2014. The assets were transferred to Investment property (see Note 12).

## 18. Equity

The various components of equity as well as the changes between 31 December 2013 and 31 December 2014 are set out in the consolidated statement of changes in equity.

### Share capital

The Company's share capital at 31 December 2014 was € 19.0 million (2013: € 19.0 million), represented by 27 365 197 ordinary shares without nominal value (2013: 5 582 654 shares, which were split into five on 1 July 2014 after approval by the Extraordinary General Meeting on 16 May 2014). All shares are paid up in full. The share premium at 31 December 2014 was € 1.2 million (2013: € 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.

### Treasury shares reserve

On 19 October 2012 the Extraordinary General Meeting approved another authorization to purchase up to 1 171 301 shares for cancellation. Taking into account the split of each share into five new shares on 1 July 2014, up to 5 856 505 shares can be bought back under this authorization. This authorization is valid for a term of five years and can be renewed. In 2014, the company acquired 604 710 of its own shares for € 18.8 million (2013: 276 492 before share split – € 28.8 million) and 30 000 treasury shares were sold pursuant to the exercise of options for € 0.2 million (2013: 14 000 before share split – € 0.3 million). Furthermore, 548 073 shares were cancelled in 2014 for € 16.9 million (2013: 273 854 before share split –

€ 28.5 million). At 31 December 2014 the Group held 1 529 252 treasury shares (2013: 300 523 before share split).

### 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 occurred.

### Translation differences

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 2014 a total of 1 426 245 options were granted (2013: 269 249 options before the impact of the share split). These options entitle their holders to one share per option (see Note 20). The options will expire ten years after the date of approval of the plan by the Board of Directors, on 5 November 2017.

### Dividends

On 12 February 2015 a dividend of € 17.8 million was proposed with respect to 2014 (2013: € 16.8 million). Based on the number of shares entitled to dividend at the date of publication of this annual report, this means a gross dividend per share of € 0.69 (2013: € 3.19 before the impact of the share split). An exceptional dividend of € 0.20 per share was also proposed. Together this means a total gross

dividend of € 0.89 per share. If all vested options were to be exercised the gross dividend would be € 0.85 per share. 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.

## 19. Earnings per share

IN '000 €	2013 <sup>(1)</sup>	2013 <sup>(2)</sup>	2014
<b>PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	<b>37 541</b>	<b>37 541</b>	<b>35 167</b>
Weighted average number of ordinary shares	5 432	27 159	26 288
Effect of options	196	983	1 054
Weighted average number of diluted shares	5 628	28 142	27 342
<b>BASIC EARNINGS PER SHARE (IN €)</b>	<b>6.91</b>	<b>1.38</b>	<b>1.34</b>
<b>DILUTED EARNINGS PER SHARE (IN €)</b>	<b>6.67</b>	<b>1.33</b>	<b>1.29</b>

*(1) Number of shares and basic earnings per share as reported in the 2013 annual report.*

*(2) Adjusted number of shares and recalculated earnings per share as if the splitting of shares into five new shares that was carried out on 1 July 2014 had been completed in 2013, in order to allow the comparison of the 2013 and 2014 data.*

### BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit of € 35.2 million attributable to the ordinary shareholders (2013: € 37.2 million) and a weighted average number of ordinary shares outstanding during the year of 26 288 260 (2013: 5 431 812 before share split and 27 159 060 after share split).

### DILUTED EARNINGS PER SHARE

The calculation of the diluted basic earnings per share is based on the profit of € 35.2 million attributable to the ordinary shareholders (2013: € 37.5 million) and a weighted average number of diluted ordinary shares outstanding during the year of 27 341 842 (2013: 5 628 307 before share split and 28 141 534 after share split).

## 20. 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. Under this share option plan, 277 231 options – or 1 386 155 options after the share split in 2014 – could be granted.

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 options will expire 10 years after the date of the approval of the plan by the Board of Directors.

The Board of Directors of 25 March 2011 approved the extension of the 2007-2016 share option plan by 34 654 shares, or 173 270 shares after share split impact in 2014, to a total of 311 885 shares, or 1 559 425 shares after impact of the share split in 2014.

At 31 December 2014 the total number of options granted under the share option plan was 1 426 245 (2013: 269 249 or 1 346 245 after impact of the share split in 2014). 15 000 options were forfeited in 2014 (2013: 9 375 or 46 875 after impact of the share split in 2014). 30 000 options were exercised (2013: 14 000 or 70 000 after impact of the share split in 2014). The weighted average share price at the time of exercise was € 29.93 (2013: € 98.66 or € 19.73 after impact of the share split in 2014). 125 000 additional options were granted in 2014 (2013: 0).

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.

AMOUNTS IN € UNLESS STATED OTHERWISE	03/2008	08/2009	08/2010	03/2011	10/2011	10/2014
Fair value of allocated options <sup>(1)</sup>	2.00	1.73	2.50	2.54	2.67	4.25
Share price at grant date <sup>(1)</sup>	5.70	5.20	8.70	10.43	11.76	27.96
Exercise price <sup>(1)</sup>	4.77	3.78	7.48	9.64	11.24	25.39
Expected volatility	31%	41%	39%	41%	29%	19%
Original expected term (in years)	8	6	5	4	5	3
Expected dividend growth	10%	10%	10%	10%	10%	2.65%
Risk-free interest rate	4.70%	3.30%	2.55%	3.16%	2.15%	0.72%

(1) With due consideration for the consequences of the 2014 share split.

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, with the exception of the options granted in 2014, which are already exercisable in the first year after the year of granting. The options only become unconditional once the other party has been employed for a certain period. 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. 40% of the options granted in 2014 were permanently acquired in 2014, 30% can be permanently acquired one year after granting and 30% can be permanently acquired two years after granting.

AMOUNTS IN € UNLESS STATED OTHERWISE	2013				2014	
	NUMBER OF OPTIONS <sup>(1)</sup>	WEIGHTED AVERAGE EXERCISE PRICE <sup>(1)</sup>	NUMBER OF OPTIONS <sup>(2)</sup>	WEIGHTED AVERAGE EXERCISE PRICE <sup>(2)</sup>	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
<b>OUTSTANDING OPTIONS AT END OF PREVIOUS PERIOD</b>	<b>292 624</b>	<b>28.47</b>	<b>1 463 120</b>	<b>5.69</b>	<b>1 346 245</b>	<b>5.70</b>
Options granted during the year					125 000	25.39
Options exercised during the year	-14 000	14.71	-70 000	2.94	-30 000	7.48
Options forfeited during the year	-9 375	48.19	-46 875	9.64	-15 000	7.48
<b>OUTSTANDING OPTIONS AT END OF CURRENT PERIOD</b>	<b>269 249</b>	<b>28.50</b>	<b>1 346 245</b>	<b>5.70</b>	<b>1 426 245</b>	<b>7.37</b>
Exercisable options at end of current period	132 753	23.75	663 765	4.75	870 720	5.97

(1) Number of options and average weighted exercise prices as reported in the 2013 annual report.

(2) The number of options and average weighted exercise prices in 2013 were adjusted to account for the consequences of the share split into five new shares carried out in 2014, to allow the comparison of the 2013 and 2014 data.

## 21. Loans and borrowings

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

For further information on these loans and borrowings and the Group's exposure to interest and foreign currency risks, see Note 24.

### NON-CURRENT LOANS AND BORROWINGS

IN '000 €	2013	2014
Leasing and similar liabilities	5 664	12 009
Loans and borrowings with credit institutions	8 000	5 000
Public bond	75 000	75 000
Transaction costs refinancing	-747	-538
<b>TOTAL</b>	<b>87 917</b>	<b>91 471</b>

## CURRENT LOANS AND BORROWINGS

IN '000 €	2013	2014
Lease and similar liabilities	2 332	3 095
Other loans and borrowings	17 000	41 000
<b>TOTAL</b>	<b>19 332</b>	<b>44 095</b>

At 31 December 2014 € 5.0 million of the unguaranteed credit in a total amount € 90.0 million had been taken up (2013: € 8.0 million).

The transaction costs for the refinancing in 2012 were € -1.1 million and are recognized in the income statement over the term of the unguaranteed credit agreement and the public bond. The amount not recognized in the income statement is charged to loans and borrowings.

At the end of 2014 the outstanding Commercial Paper debt was € 41.0 million (2013: € 17.0 million). This amount is part of other loans and borrowings.

### Finance lease liabilities

The digital projectors that were sold to and leased back from a third party since 2010 have been recognized as non-current and current lease liabilities for € 3.3 million and € 2.4 million respectively.

### Future minimum lease payments

IN '000 €	2013			2014		
	PAYMENTS	INTEREST CHARGES	CAPITAL	PAYMENTS	INTEREST CHARGES	CAPITAL
Less than one year	2 591	-259	2 332	3 437	-342	3 095
Between one and five years	5 870	-255	5 615	6 477	-782	5 695
More than five years	49		49	8 270	-1 956	6 314
<b>TOTAL</b>	<b>8 510</b>	<b>-514</b>	<b>7 996</b>	<b>18 184</b>	<b>-3 080</b>	<b>15 104</b>

In 2014 no new digital projectors were purchased and leased back (2013 € 0.3 million).

The lease of the complex in Groningen, which was acquired in 2014, was classified as a finance lease and recognized in the current and the non-current lease liabilities for € 0.6 million and € 8.4 million respectively.

The lease liabilities also include the lease of digital projectors from the acquired Wolff Bioscopen group for € 0.2 million non-current and € 0.1 million current.

In 2014 new digital projectors and servers were installed in the acquired cinemas in Alicante and Madrid (Spain). The related non-current finance lease liability amounted to € 0.1 million.

For more information about the Group's financial leases, see notes 11 and 24.

## 22. Provisions

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

### Site restoration

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 2014 the provision for the demolition of the building and the reinstatement of the land to its original state was € 1.1 million (2013: € 1.1 million).

### Transformation

On 31 December 2014 the provisions for the transformation of the organization were € 0.6 million (2013: € 1.2 million). In 2014 new transformation provisions were set up for € 0.4 million (2013: € 0.5 million). € 0.8 million of the transformation provisions were used (2013: € 0.4 million). € 0.2 million was reversed (2013: € 0.2 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 at 31 December 2014 because there were no developments in the related cases. When these provisions will be used or reversed depends on the outcome of the legal disputes concerned and is thus uncertain.

#### Termination of lease agreements

The provision for the termination of lease agreements, set up in 2012, was reversed in 2013, as it was no longer required after changes to the renovation project in Louvain (Belgium).

IN '000 €	2013	2014
<b>BALANCE AT END OF PREVIOUS PERIOD</b>	<b>4 051</b>	<b>3 731</b>
Provisions set up	828	565
Discounting of provisions	38	38
Use of provisions	-457	-1 029
Reversal of provisions	-729	-198
<b>BALANCE AT END OF CURRENT PERIOD</b>	<b>3 731</b>	<b>3 107</b>
Balance at end of current period (non-current)	3 016	2 497
Balance at end of current period (current)	715	610
<b>TOTAL</b>	<b>3 731</b>	<b>3 107</b>

## 23. Trade and other payables

### NON-CURRENT OTHER PAYABLES

IN '000 €	2013	2014
Other payables	8 104	7 357
<b>TOTAL</b>	<b>8 104</b>	<b>7 357</b>

The non-current other payables primarily comprise the government grants that can be claimed from the CNC in France based on the number of visitors. These government grants, in the amount of € 6.9 million (2013: € 7.6 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 €	2013	2014
Trade payables	47 444	52 181
Employee benefits liabilities	6 837	8 077
Taxes payable, other than income taxes	4 066	4 038
Tax shelter liabilities	200	460
Advances received for contracts in progress	361	
Accrued charges and deferred income	3 074	3 054
Contingent considerations		4 159
Other payables	401	325
<b>TOTAL</b>	<b>62 383</b>	<b>72 294</b>

#### Accrued charges and deferred income

At 31 December 2014 the accrued interest expenses with respect to the public bond issued in 2012 were € 2.9 million (2013: € 2.9 million).

#### Contingent considerations

At the time of the acquisition of the Wolff Bioscopen group, a number of contingent considerations were set down contractually. At 31 December 2014 their fair value was € 4.2 million. For more information about this, see notes 10 and 24.



# 24. Risk management and financial instruments

## RISK MANAGEMENT

### Financial risk management

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

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

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

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 derivative financial instruments to match the terms of the hedged item so as to maximize hedge effectiveness.

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

The Board of Directors investigates and approves policies for managing each of these risks. These policies are summarized below. The accounting treatment of the derivative financial instruments is included 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 current and non-current loans and borrowings.

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

- ★ 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;
- ★ 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 the end of 2013 the Group had one single interest rate swap outstanding, on which the Group received a variable interest rate equal to EURIBOR and paid a fixed interest rate. This swap was used to cover the variability in the cash flows of the underlying loans.

This interest rate swap was deemed to be a cash flow hedge in accordance with the IAS 39 hedge accounting rules. Therefore, the effective portion of the change in fair value of the interest rate swap was recognized directly in other comprehensive income. The total changes in fair value of interest rate swaps recognized in other comprehensive income resulted in an increase in the hedging reserve of € 0.6 million at 31 December 2013 before deferred tax. There were no outstanding interest rate agreements at the end of 2014.

Kinopolis pursues a conservative financial policy. To hedge interest risk, since 2008 Kinopolis 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).

At 31 December 2014, 67% of the Group's borrowings were recognized at a fixed interest rate (2013: 82% at fixed interest, with due consideration for the impact of the interest swap that was still in effect at the time).

### Interest rate risk sensitivity analysis

The interest-bearing loans at the balance sheet date were € 136.0 million (2013: € 107.8 million). € 46.1 million or 33.9% of the interest-bearing loans have a variable interest rate, without taking into account the effect of the interest rate swap (2013: € 25.1 million or 23.2%).

Total interest charged to the income statement in 2014, including the results realized on derivative interest rate instruments, was € 4.5 million (2013: € 5.1 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 31/12/2014	THEORETICAL VOLATILITY	POSSIBLE INTEREST RATE 31/12/2014 AS USED IN THE SENSITIVITY ANALYSIS
EURIBOR (3m)	0.08%	+2% / -0.25%	2.08% / -0.17%

Applying the possible increase or decrease in the market interest rate as provided above to the variable rate borrowings at 31 December 2014, and all other variables being constant, the profit in 2014 would be € 0.9 million lower or € 0.1 million higher (2013: € 0.5 million lower or € 0.1 million higher). As there were no interest rate derivatives, this effect would not be partially neutralized in 2014 by higher or lower interest income from interest rate derivatives (2013: € 0.1 million higher or € 0.0 million lower). The fair value of the financial instruments included in equity in 2013 would not be significantly impacted.

### 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 (euro) (transaction risk).

Group policy is focused on minimizing the impact of exchange rate fluctuations on profit or loss.

Derivatives can be used at any time to hedge this risk.

The Group's sales denominated in currencies other than the functional currency are limited. The purchases of the Group's subsidiaries primarily concern the guarantee obligations in US dollar entered into by Kinopolis Film

### Foreign currency risk sensitivity analysis

1 EURO CORRESPONDS TO:	CLOSING RATE 31/12/2014	AVERAGE RATE 2014	THEORETICAL VOLATILITY	POSSIBLE CLOSING RATE 31/12/2014	POSSIBLE AVERAGE RATE 2014
Polish zloty	4.2623	4.1841	20%	3.41 - 5.11	3.35 - 5.02
Swiss franc	1.2024	1.2147	20%	0.96 - 1.44	0.97 - 1.46

The above table states the possible changes in the exchange rate for the Polish zloty and the Swiss franc against the euro, estimated on the basis of the theoretical volatility.

If, at the balance sheet date, the Polish zloty and the Swiss franc had strengthened/weakened as indicated above,

Distribution NV towards Dutch Filmworks BV and to a limited degree the purchases of materials by the Group in US dollar. At 31 December 2014 the Group had outstanding foreign exchange forward contracts for a nominal amount of \$ 1.2 million (2013: \$ 1.8 million) for the purposes of hedging this risk.

Loans between Kinopolis Financial Services NV and other Group companies are expressed in the currency of the latter. Foreign exchange results regarding the non-current loans in Swiss franc and Polish zloty of Kinopolis Financial Services NV to Kinopolis Schweiz AG and Kinopolis Poznań 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. The following foreign exchange rate results were recognized directly in equity:

IN '000 €	2013	2014
Polish zloty	-1 070	-1 285
Swiss franc	152	361
<b>TOTAL</b>	<b>-918</b>	<b>-924</b>

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

and all other variables being constant, the profit would have been € 0.2 million higher (2013: € 0.0 million higher) or € 0.3 million lower (2013: € 0.0 million lower) and equity at the end of 2014 would have been € 3.0 million lower or € 4.5 million higher (2013: € 4.5 million higher or € 3.0 million lower).

### **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 accounts for impairment losses in the amount of the estimated losses in relation to trade receivables. This concerns partly specific and partly general loss provisions that are set up as soon as receivables are more than 60 days overdue, unless their collection is still deemed to be likely.

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 significant concentrations of credit risk within the Group. The Group has no clients that account for more than 10% of revenue.

The Group believes that all financial assets for which no impairment losses have been recognized can be collected in full, based on historical payment patterns and a thorough evaluation of the credit risk.

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 € 52.0 million at 31 December 2014 (2013: € 56.6 million).

### **Liquidity risk**

The Group's goal is to ensure that there is sufficient financing for the long term. The financing need is determined on the basis of the strategic long-term plan. Various credit forms are used, including bonds, credit lines, bank loans and finance leases, to guarantee the continuity and flexibility of financing. Group liquidity is managed through the in-house bank, Kinopolis Financial Services NV.

### **Capital management**

The Board of Directors' 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 operating profit divided by equity, excluding non-controlling interests. The Board of Directors also monitors the level of the dividend payable to the shareholders.

The Board of Directors seeks a balance between, on the one hand, the higher return that is potentially available with a higher level of borrowing, and, on the other hand, 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 own shares were purchased by means of a share buyback program through a financial institution operating under a discretionary mandate. These 277 231 shares are held to cover the Group's current share option plan.

The Board of Directors takes decisions with regard to the purchase of treasury shares for each specific transaction.

The Board of Directors believed that the ratios of net financial debt to equity and net financial debt to EBITDA were at risk of becoming too low as from mid 2010 and therefore proposed to the General Meeting the reduction of share capital and the purchase of treasury shares 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 cancellation. 349 423 shares were already cancelled in 2011. In accordance with the authorization of the Board of Directors by the Extraordinary General Meeting of 20 May 2011, an additional 713 422 shares were purchased and 724 847 shares were cancelled in 2012.

On 19 October 2012 the Extraordinary General Meeting approved another authorization to purchase up to 1 171 301 own shares for cancellation, subject to certain conditions. This authorization is valid for a term of five years and can be renewed. Under the new authorization, a new share buy-back program was launched in 2013 to buy back 300 000 shares. 276 492 shares were bought back in 2013. On 18 December 2013 the Board of Directors decided to cancel 273 854 shares.

On 16 May 2014 the Extraordinary General Meeting decided to split the Group's 5 582 654 shares into five as from 1 July 2014. Taking into account the share split, 604 710 shares were bought back in 2014.

On 18 December 2014 the Board of Directors decided to cancel 548 073 shares. Therefore, the Group's share capital at 31 December 2014 was represented by 27 365 197 ordinary shares without nominal value.

At the end of 2014 the Group held 1 529 252 treasury shares: 63 715 for cancellation and 1 465 537 to cover options.

## FINANCIAL INSTRUMENTS

### Debt portfolio

On 15 February 2012, within the framework of the refinancing of its existing syndicated credit and the financing of the further general development of the Group, Kinopolis signed a € 90.0 million credit agreement with ING Belgium, KBC Bank and BNP Paribas Fortis until 31 March 2017 (rollover credit). Repayment of part of this credit is accelerated: € 15.0 million falls due in 2015 and € 15.0 million in 2016. No securities were provided. Only a number of conditions apply with regard to the sale or provision as security of certain of the Group's assets to a third party.

This 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. All these covenants were attained in 2014, as they were in 2013.

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

At 31 December 2014 € 5.0 million of this credit had been taken up (2013: € 8.0 million).

The Group also issued a non-subordinated bond for € 75.0 million in Belgium on 6 March 2012. The bonds mature in seven years and have a fixed annual gross interest of 4.75%.

In late 2010 a sale and leaseback agreement was concluded for an amount up to € 17.5 million. Under this agreement Kinopolis sells tangible fixed assets and leases them back for a term of six years. This facility provides an additional alternative to long-term bank financing.

At 31 December 2014 € 5.7 million was outstanding (2013: € 8.0 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.

In the autumn of 2009 a Commercial Paper program was issued with a maximum value of € 50.0 million for short-term financing purposes. At 31 December 2014 € 41.0 million had been taken up (2013: € 17.0 million). The syndicated credit agreement functions in this context as back-up financing. The Commercial Paper is a flexible alternative to bank financing, comparable with a short-term corporate bond. The interest payable is calculated on the basis of the EURIBOR applicable to the selected borrowing period plus the negotiated margin.

Within the framework of the acquisition of the Wolff Bioscopen group in 2014, the lease of the cinema in Groningen was renegotiated for a period of 17 years and classified as a finance lease (see Note 11). The lease debt at the commencement of the new contract was determined by discounting the future lease payments of the Group on the basis of the incremental borrowing rate of the Group, as the implicit interest rate of the lease was not available. At 31 December 2014 this debt was € 9.0 million.

The projectors of the Wolff Bioscopen group acquired in 2014 were sold to a third party in 2011 and leased back for a period of up to 10 years. The carrying amount of this lease debt was € 0.3 million at 31 December 2014.

New projectors in the Spanish multiplexes were leased from a third party for a period of up to 10 years. The lease debt in question was € 0.1 million at 31 December 2014.

For more information about the three aforementioned leases, see notes 11 and 21.

## Financial liabilities – contractual cash flows

The following table gives an overview of the contractual maturities of the financial liabilities

at 31 December 2014, including the estimated interest payments:

IN '000 €	2014			
	<1 YEAR	1-5 YEARS	>5 YEARS	TOTAL
Trade payables	52 181			52 181
Loans and borrowings with credit institutions	51	5 104		5 155
Commercial Paper	41 000			41 000
Bond	3 563	89 250		92 813
Lease liabilities	3 437	6 477	8 270	18 184
Contingent considerations	4 159			4 159
Tax shelter liabilities	460			460
Third party current account payables	43			43
Bank overdrafts	470			470
<b>Non-derivative financial liabilities</b>	<b>105 364</b>	<b>100 831</b>	<b>8 270</b>	<b>214 465</b>
Foreign exchange forward contracts				
- Outflow	959			959
- Inflow	-988			-988
<b>Derivative financial liabilities</b>	<b>-29</b>			<b>-29</b>
<b>TOTAL</b>	<b>105 335</b>	<b>100 831</b>	<b>8 270</b>	<b>214 436</b>

IN '000 €	2013			
	<1 YEAR	1-5 YEARS	>5 YEARS	TOTAL
Trade payables	47 444			47 444
Loans and borrowings with credit institutions	98	8 225		8 323
Commercial Paper	17 000			17 000
Bond	3 563	14 250	78 562	96 375
Lease liabilities	2 591	5 870	49	8 510
Tax shelter liabilities	200			200
Third party current account payables	43			43
Bank overdrafts	581			581
<b>Non-derivative financial liabilities</b>	<b>71 520</b>	<b>28 345</b>	<b>78 611</b>	<b>178 476</b>
Interest rate swaps	28			28
Foreign exchange forward contracts				
- Outflow	1 334			1 334
- Inflow	-1 305			-1 305
<b>Derivative financial liabilities</b>	<b>57</b>			<b>57</b>
<b>TOTAL</b>	<b>71 577</b>	<b>28 345</b>	<b>78 611</b>	<b>178 533</b>

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 €	2013		2014	
	TOTAL	<1 YEAR	TOTAL	<1 YEAR
Loans and borrowings with credit institutions	8 000	8 000	5 000	5 000
Bank overdrafts	581	581	470	470
Commercial Paper	17 000	17 000	41 000	41 000
<b>TOTAL</b>	<b>25 581</b>	<b>25 581</b>	<b>46 470</b>	<b>46 470</b>

## Hedging activities

The Group uses derivative financial instruments to hedge the interest rate and currency risk. All derivative financial instruments are measured at fair value. 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 €	2014			
	<1 YEAR	1-5 YEARS	>5 YEARS	TOTAL
<b>Foreign currency</b>				
Foreign exchange forward contracts	1 200			1 200

IN '000 €	2013			
	<1 YEAR	1-5 YEARS	>5 YEARS	TOTAL
<b>Interest</b>				
Interest rate swaps	5 000			5 000
<b>Foreign currency</b>				
Foreign exchange forward contracts	1 800			1 800

## 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 following table discloses the clean fair value and the carrying amount of the main interest-bearing financial loans and borrowings (measured at amortized cost).

IN '000 €	2013		2014	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Public bond – fixed interest rate	75 000	79 128	75 000	83 459
Transaction costs refinancing	-747	-747	-538	-538
Lease liabilities – fixed interest rate	7 996	8 060	15 104	15 203
Interest-bearing loans – variable interest rate	25 000	25 000	46 000	46 000
Bank overdrafts	581	581	470	470
<b>TOTAL</b>	<b>107 830</b>	<b>112 022</b>	<b>136 036</b>	<b>144 594</b>

The fair value of the public bond with fixed interest rate was measured by discounting the future cash flows based on an interest rate of 2.33% (2013: 3.71%).

The fair value of the other non-derivative financial assets (loans and receivables) and liabilities (measured at amortized cost) is equal to the carrying amount.

An interest rate of 2.32% for the leased projectors and 3.31% for the leased cinema in Groningen (the Netherlands) was used to measure the fair value of the lease liabilities by discounting the future cash flows (2013: 3.13% for the leased projectors).

The following table provides the nominal or contractual amounts and the clean fair value of all outstanding derivative financial instruments (cash flow hedging instruments). The nominal or contractual amounts reflect the volume of the derivative financial instruments outstanding at the balance sheet date. As such they represent the Group's risk on these transactions.

IN '000 €	2013		2014	
	NOMINAL VALUE	FAIR VALUE	NOMINAL VALUE	FAIR VALUE
<b>Interest</b>				
Interest rate swaps	5 000	-31		
<b>Foreign currency</b>				
Foreign exchange forward contracts	1 800	-29	1 200	27
<b>TOTAL</b>	<b>6 800</b>	<b>-60</b>	<b>1 200</b>	<b>27</b>

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

At 31 December 2013 there was one outstanding interest rate swap remaining with maturity on 30 March 2014. The fair value of this interest rate swap at 31 December 2013

was measured as being the future cash flow at 30 March 2014.

The fair value of foreign exchange forward contracts is calculated as the discounted value of the difference between the value of these contracts based on the exchange rate at the balance sheet date and the contract value based on the forward exchange rates at the same time.

The fair value of the derivative financial instruments is included in the Group's statement of financial position as follows:

IN '000 €	2013			2014		
	ASSETS	LIABILITIES	NET VALUE	ASSETS	LIABILITIES	NET VALUE
Non-current						
Current		-60	-60	27		27
<b>TOTAL</b>		<b>-60</b>	<b>-60</b>	<b>27</b>		<b>27</b>

At 31 December 2014 the fair value of the contingent considerations was € 4.2 million. This amount was determined on the basis of the following assumptions:

- ★ The new-build project in Utrecht will be completed in accordance with the wishes of the Group;
- ★ The number of visitors of the future cinema in Utrecht will probably be lower than in the original business plan due to the arrival of a competitor project close by;
- ★ Two of the three existing cinemas in Utrecht and the cinemas in Nieuwegein and Rotterdam will continue to be leased during the agreed term.

#### Fair value hierarchy

The table below provides an overview of the 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.

The payment or receipt of contingent considerations is dependent on each assumption. Bearing mind the short term, the calculated amounts were not discounted.

The non-observable significant input is the number of visitors of the Group's future new-build project in Utrecht.

The estimated fair value will increase or decrease depending on whether the number of visitors of the new cinema in Utrecht is higher or lower.

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 €	2013			2014		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
<b>Cash flow hedging – Interest</b>						
Interest rate swaps			-31			
<b>Cash flow hedging – Currency</b>						
Foreign exchange forward contracts			-29		27	
<b>Financial liabilities measured at fair value</b>						
Contingent considerations						4 159
<b>TOTAL</b>			<b>-60</b>		<b>27</b>	<b>4 159</b>

### Level 3 fair value

The following table shows the reconciliation between the opening and closing balance for the level 3 fair value:

IN '000 €	CONTINGENT CONSIDERATIONS
<b>BALANCE AT END OF PREVIOUS PERIOD</b>	
Acquisitions through business combinations (see Note 10)	5 519
Change in fair value (unrealized) (part of the finance income) (see Note 7)	-1 359
<b>BALANCE AT END OF CURRENT PERIOD</b>	<b>4 159</b>

### Level 3 fair value sensitivity analysis

The possible change in the significant non-observable input stated below could reasonably have the following impact on the fair value of the contingent considerations at balance sheet date:

IN '000 €	2014
10% increase in the projected number of visitors of the future cinema in Utrecht	535
10% decrease in the projected number of visitors of the future cinema in Utrecht	-535

## 25. Operating leases

### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

IN '000 €	2013	2014
Less than one year	4 525	7 515
Between one and five years	13 038	24 316
More than five years	10 653	20 720
<b>TOTAL</b>	<b>28 216</b>	<b>52 551</b>
Minimum lease payments in the income statement with regard to operating leases	4 855	6 164
Contingent lease payments in the income statement with regard to operating leases	199	247

The multiplex in Valencia (Spain) is leased for a period of 40 years since May 2001. There is an option to terminate the contract after 20 years. The contract does not provide for a purchase option.

The Group also leases the complex in the centre of Nîmes (France) and a complex in the centre of Liège (Belgium). The term of these leases is nine years (renewable). A fixed rent is always charged.

The Group also leases the land on which a number of complexes have been built and the adjacent car park for a remaining period of 11 years (renewable) in Belgium and 49 years in France (long lease construction). The paid rent is partly fixed and partly variable, based on the number of tickets sold. This variable rent was € 0.2 million in 2014.

A number of car parks are also leased in Belgium for a period of 1 to 27 years (renewable). A fixed rent is always charged.



The Group also leases office space for a period of nine years (renewable). The rent is always fixed.

All buildings housing Dutch entities of the Group, which were acquired in 2014, are leased. Except for the rent on the building in Groningen these are all operating leases. The contracts have a term of 1 to 25 years (renewable). The rent is always fixed.

The cinemas in Spain (Alicante and Madrid) acquired in 2014 are leased for a period of 10 years (renewable for two periods of 5 years; cancellable by the tenant if the number of visitors falls below a given threshold) and 20 years (not

renewable; cancellable by the tenant after 10 and 15 years) respectively. The paid rent is partly fixed and partly variable, based on the number of paying visitors. This variable rent was € 0.0 million in 2014.

Finally, the Group leases cars for some of its employees. These contracts have a term of 3 to 5 years (sometimes renewable). All lease sums are fixed.

#### Leases as lessor

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

IN '000 €	2013	2014
Less than one year	5 710	5 772
Between one and five years	8 525	8 658
More than five years	2 026	1 387
<b>TOTAL</b>	<b>16 261</b>	<b>15 817</b>
Minimum lease payments in the income statement with regard to operating leases	6 881	6 708
Contingent lease payments in the income statement with regard to operating leases	120	368

The leases as lessor primarily concern the multiplex in Poznań (Poland) leased to Cinema City since January 2007 for a term of ten years (renewable 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 € 0.0 million in 2014 (2013: € 0.0 million).

Since 2014 the Group leases the Toison d'Or cinema in Brussels (Belgium) to UGC. This is a contract with a term of 18 years (renewable twice for 9 years). The rent consists of a fixed and a variable portion. The variable part is determined on the basis of the number of visitors. No variable rent was charged in 2014.

The Group also leases part of its complexes to third parties for the exploitation of shops or cafes. These concessions have a term of 1 to 36 years (renewable). A fixed rent is always charged.

Finally, the car parks of a number of multiplexes are leased for a period of 1 to 15 years (renewable) in Belgium and for an indefinite term in Poland. A fixed rent is charged for part of these car parks. The revenue from the other car parks is variable, based on the number of sold parking tickets, adjusted for management costs.

## 26. Capital commitments

At the end of 2014 the Group had material capital commitments for € 8.2 million (2013: € 2.1 million). These are obligations with regard to the remodeling of the Spanish cinemas in Madrid and Alicante acquired

in 2014, the development of new front office software for the Group and the construction of new cinemas in Dordrecht and Breda in the Netherlands.

## 27. Contingencies

At the end of 2014 the Group had contingencies for € 1.7 million (2013: € 1.6 million). These are minimum guarantee commitments of Kinopolis Film Distribution NV

toward Dutch Filmworks BV for films that were not yet released, but for which contractual obligations already exist.

## 28. 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 €	2013	2014
<b>Directors</b>		
Remuneration	327	351
<b>Executive officers (CEOs)</b>		
Short-term employee benefits	1 473	1 403
Share-based payments	122	77
Group insurance	10	10
<b>TOTAL</b>	<b>1 932</b>	<b>1 841</b>

The CEOs and the Chairman of the Board of Directors took part in the 2007-2016 Group's share option plan (Incentive Plan) (see Note 20) (1 039 620 options (after impact of the share split) in 2014 and 2013). At 31 December 2014, 779 720 of these options were exercisable (2013: 649 765 (after impact of the share split)).

### Transactions with other related parties

Kinohold BIS SA provides certain administrative services to the Group, charging a market rate of € 0.4 million in 2014, (2013: € 0.4 million).

Pentascop NV provides a number of maintenance and transport services to the Group, charging a market rate of € 0.3 million in 2014 (2013: € 0.3 million), € 0.1 million of which was not yet paid at 31 December 2014 (2013: € 0.1 million).

## 29. Subsequent events

In January 2015 the Group concluded a private placement of bonds with institutional investors for € 96.0 million: € 61.4 million was placed with a term of 7 years and € 34.6 million with a term of 10 years. Fixed annual gross interest

is paid on both bonds. This private placement fits in with the Group's financial strategy, supports the expansion and serves as diversification of the sources of financing and as refinancing of the existing credits.

## 30. Mandates and remuneration of the Statutory Auditor

The Statutory Auditor for the Company is KPMG Bedrijfsrevisoren, represented by Mr S. Cosijns.

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

IN '000 €	2013	2014
<b>Remuneration of the Statutory Auditor</b>	<b>276 800</b>	<b>295 924</b>
Other audit-related services	3 000	42 000
Tax services		
Other		
<b>Remuneration for other services or assignments performed within the Company and its subsidiaries by the Statutory Auditor</b>	<b>3 000</b>	<b>42 000</b>
<b>Remuneration for persons associated to the Statutory Auditor for the performance of a mandate as Statutory Auditor</b>	<b>119 200</b>	<b>122 655</b>
Other audit-related services	5 000	9 600
Tax services	59 836	48 375
Other		
<b>Remuneration for other services or assignments performed within the Company and its subsidiaries by persons associated to the Statutory Auditor</b>	<b>64 836</b>	<b>57 975</b>
<b>TOTAL</b>	<b>463 836</b>	<b>518 544</b>

## 31. Group entities

### List of fully consolidated companies

COUNTRY	NAME	MUNICIPALITY	VAT OR ENTERPRISE NUMBER	% 2013	% 2014
Belgium	Brightfish NV	Brussels	BE 0450 523 725	100	100
	Kinopolis Braine SA	Braine-L'alleud	BE 0462 688 911	100	100
	Kinopolis Film Distribution (KFD) NV	Brussels	BE 0445 372 530	100	100
	Kinopolis Financial Services NV	Brussels	BE 0886 547 831	100	100
	Kinopolis Group NV	Brussels	BE 0415 928 179	100	100
	Kinopolis Immo Hasselt NV	Hasselt	BE 0455 729 358	100	100
	Kinopolis Immo Liège NV	Hasselt	BE 0459 466 234	100	100
	Kinopolis Immo Multi NV	Brussels	BE 0877 736 370	100	100
	Kinopolis Liège NV	Hasselt	BE 0459 469 796	100	100
	Kinopolis Mega NV	Brussels	BE 0430 277 746	100	100
	Kinopolis Multi NV	Kortrijk	BE 0434 861 589	100	100
	KP Immo Brussel NV	Brussels	BE 0816 884 015	100	100
France	Eden Panorama SA	Lomme	FR 02340483221	100	100
	Forum Kinopolis SA	Nîmes	FR 86421038548	100	100
	Kinopolis France SA	Lomme	FR 20399716083	100	100
	Kinopolis Film Distribution France SASU	Lomme	FR 43789848280	100	100
	Kinopolis Immo St.Julien-lès-Metz SAS	Metz	FR 51398364463	100	100
	Kinopolis Immo Thionville SA	Thionville	FR 10419162672	100	100
	Kinopolis Le Château du Cinéma SAS	Lomme	FR 60387674484	100	100
	Kinopolis Mulhouse SA	Mulhouse	FR 18404141384	100	100
	Kinopolis Nancy SAS	Nancy	FR 00428192819	100	100
	Kinopolis Prospection SAS	Lomme	FR 45428192058	100	100
	Kinopolis St. Julien-lès-Metz SA	Metz	FR 43398364331	100	100
	Kinopolis Thionville SA	Thionville	FR 09419251459	100	100
Luxembourg	Majestiek International SA	Luxembourg	LU 19942206638	100	100
The Netherlands	Eerste Theater Programmatie BV	Utrecht	NL 822229936B01		100
	Kinopolis Immo BV	Utrecht	NL 003182794B01		100
	Murillo BV	Utrecht	NL 808810261B01		100
	Wolff Beheermaatschappij BV	Utrecht	NL 007081698B01		100
	Wolff Bioscopen Holding BV	Utrecht	NL 822624382B01		100
	Wolff Enschede BV	Utrecht	NL 808883574B01		100
	Wolff Groningen BV	Utrecht	NL 816165774B01		100
	Wolff Huizen BV	Utrecht	NL 820697230B01		100
	Wolff Megabioscoop Utrecht BV	Utrecht	NL 819683036B01		100
	Wolff Participatie BV	Utrecht	NL 822624357B01		100
Utrechtse Film Onderneming "Ufio" BV	Utrecht	NL 003182812B01		100	
Poland	Kinopolis Poznań S.p.z. o.o.	Poznań	NIP 5252129575	100	100
Spain	Kine Invest SA	Pozuelo de Alarcon	ESA 824 896 59	100	100
	Kinopolis España SA	Pozuelo de Alarcon	ESA 814 870 27	100	100
	Kinopolis Granada SA	Pozuelo de Alarcon	ESA 828 149 55	100	100
	Kinopolis Jerez SA	Pozuelo de Alarcon	ESA 828 149 22	100	100
	Kinopolis Madrid SA	Pozuelo de Alarcon	ESA 828 149 06	100	100
	Kinopolis Paterna SA	Pozuelo de Alarcon	ESA 828 149 14	100	100
Switzerland	Kinopolis Schweiz AG	Schaffhausen	CH 2903013216-5	100	100

# Statutory Auditor's report to the General Meeting of Kinopolis Group NV as of and for the year ended 31 December 2014

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

In accordance with the legal requirements, we report to you in the context of our statutory auditor's mandate. This report includes our report on the consolidated financial statements as of and for the year ended 31 December 2014, as defined below, as well as our report on other legal and regulatory requirements.

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS – UNQUALIFIED OPINION

We have audited the consolidated financial statements of Kinopolis 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 financial statements comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated income statement and the consolidated statements of profit or loss and other 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 is € 347 064 (000) and the consolidated statement of comprehensive income shows a profit for the year of € 35 167 (000).

## Board of Directors' responsibility for the preparation of the consolidated financial statements

The Board of Directors 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.

## Statutory 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 (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 the statutory auditor's 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, the statutory auditor considers 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 accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We have obtained from the Company's officials and the Board of Directors 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 unqualified opinion.

#### **Unqualified opinion**

In our opinion, the consolidated financial statements give a true and fair view of the Group's equity and consolidated financial position as at 31 December 2014 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.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

The Board of Directors is responsible for the preparation and the content of the report on the consolidated financial statements.

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, compliance with certain legal and regulatory requirements. On this basis, we provide the following additional statements which does not modify our opinion on the consolidated financial statements:

- ★ The annual report on the consolidated financial statements includes the information required by law, is consistent, in all material respects, with the consolidated financial statements and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate.

Kontich, 2 April 2015

KPMG Réviseurs d'Entreprises / Bedrijfsrevisoren  
Statutory Auditor  
represented by

Serge Cosijns  
Réviseur d'Entreprises / Bedrijfsrevisor

# Condensed financial statements of Kinopolis Group NV

The following information is an extract from the unconsolidated financial statements of Kinopolis Group NV, drawn up in accordance with the Belgian accounting principles. These unconsolidated financial statements, together with the management 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 Kinopolis Group.

Since Kinopolis Group NV is essentially a holding company that accounts for its investments at cost in its unconsolidated statements, these separate financial statements only give a limited view of the financial position of Kinopolis Group NV. Therefore the Board of Directors has deemed it

appropriate to present only a condensed unconsolidated balance sheet and income statement, prepared according to the Belgian accounting principles for the year ended 31 December 2014.

The statutory auditor's report on these statements is unqualified and confirms that the unconsolidated financial statements of Kinopolis Group NV, prepared in accordance with Belgian accounting principles for the year ending 31 December 2014, give a true and fair view of the financial position of Kinopolis Group NV in accordance with all legal and regulatory provisions.

The unconsolidated financial statements of Kinopolis Group NV can be obtained free of charge from the website of the Nationale Bank van België ([www.nbb.be](http://www.nbb.be)), in section "Balanscentrale", subsection "Jaarrekeningen raadplegen" or requested free of charge from Investor Relations.

## CONDENSED UNCONSOLIDATED BALANCE SHEET OF KINOPOLIS GROUP NV

IN '000 €	2013	2014
<b>Non-current assets</b>	<b>243 325</b>	<b>267 427</b>
Intangible assets	2 331	1 466
Property, plant and equipment	9 002	10 260
Financial fixed assets	231 992	255 701
<b>Current assets</b>	<b>35 147</b>	<b>36 482</b>
<b>TOTAL ASSETS</b>	<b>278 472</b>	<b>303 909</b>
<b>Equity</b>	<b>64 420</b>	<b>66 944</b>
Issued capital	18 952	18 952
Share premium	1 154	1 154
Legal reserve	4 896	1 895
Unavailable reserves	7 616	9 364
Available reserves	4 049	7 050
Profit carried forward	27 753	28 529
<b>Provisions and deferred taxes</b>	<b>327</b>	<b>337</b>
<b>Non-current loans and borrowings</b>	<b>159 131</b>	<b>148 430</b>
<b>Current loans and borrowings</b>	<b>49 256</b>	<b>82 862</b>
<b>Accrued charges and deferred income</b>	<b>5 338</b>	<b>5 336</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>278 472</b>	<b>303 909</b>

## CONDENSED UNCONSOLIDATED INCOME STATEMENT OF KINEPOLIS GROUP NV

IN '000 €	2013	2014
Operating income	73 356	75 536
Operating expenses	-33 193	-35 528
<b>OPERATING PROFIT</b>	<b>40 163</b>	<b>40 008</b>
Financial result	14 759	13 558
Extraordinary result	-255	-811
Current tax expenses	-9 528	-10 218
<b>GAIN/(LOSS) FROM THE FINANCIAL YEAR FOR APPROPRIATION</b>	<b>45 139</b>	<b>42 537</b>

## PROFIT APPROPRIATION OF KINEPOLIS GROUP NV

IN '000 €	2013	2014
Gain/(loss) from the fiscal year to be appropriated	45 139	42 537
Profit carried forward from previous financial year	27 938	27 753
Transfer from equity:		3 001
- From legal reserves		3 001
Addition to equity:	28 477	21 660
- To other reserves	28 477	21 660
Profit to be carried forward	27 753	28 529
Dividend	16 847	23 102

## MANDATES AND REMUNERATION OF THE STATUTORY AUDITOR OF KINEPOLIS GROUP NV

	2013	2014
<b>Remuneration for the Statutory Auditor</b>	<b>152 025</b>	<b>167 281</b>
Other audit-related services		40 500
Tax services		
Other		
<b>Remuneration for other services or assignments performed within the Company by the Statutory Auditor</b>		<b>40 500</b>
Other audit-related services		
Tax services	59 836	48 375
Other		
<b>Remuneration for other services or assignments performed within the Company by persons associated to the Statutory Auditor</b>	<b>59 836</b>	<b>48 375</b>

# Glossary

**Gross profit**

Revenue – Cost of sales

**Operating profit (EBIT)**

Gross profit – marketing and selling expenses -  
administrative expenses + other operating income -  
other operating expenses

**Current operating profit (REBIT)**

Operating profit after elimination of non-current transactions

**EBITDA**

Operating profit + depreciations + amortizations + impair-  
ments + 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 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 of number of outstanding shares – average number  
of treasury shares + number of possible new shares that must  
be issued under the existing share option plan x dilution  
effect of the share option plan)

**Capital expenditure**

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 classified as held for sale + average  
trade receivables + average inventories – average trade  
payables)

**Current Ratio**

Current assets / current liabilities

**Free cash flow**

Net cash from operating activities – maintenance capital  
expenditures for intangible assets, property, plant and  
equipment and investment property – interest paid



# Financial calendar 2015-2016

<p>Wednesday</p> <p><b>13</b></p> <p>May 2015</p> <p>PUBLICATION BUSINESS UPDATE Q1 2015</p>	<p>Wednesday</p> <p><b>13</b></p> <p>May 2015</p> <p>GENERAL MEETING KINEPOLIS GROUP NV</p>	<p>Thursday</p> <p><b>21</b></p> <p>May 2015</p> <p>DIVIDEND- PAYMENT</p>
<p>Thursday</p> <p><b>27</b></p> <p>August 2015</p> <p>PUBLICATION H1 2015 RESULT PRESENTATION TO PRESS AND ANALYSTS</p>	<p>Tuesday</p> <p><b>17</b></p> <p>November 2015</p> <p>PUBLICATION BUSINESS UPDATE Q3 2015</p>	<p>Thursday</p> <p><b>18</b></p> <p>February 2016</p> <p>PUBLICATION 2015 ANNUAL RESULT PRESENTATION TO PRESS AND ANALYSTS</p>

These dates are subject to change.

For updates of the financial calendar, please refer to the Investor Relations website.

Registered office:  
Kinopolis Group NV  
Eeuwfeestlaan 20  
1020 Brussels, Belgium

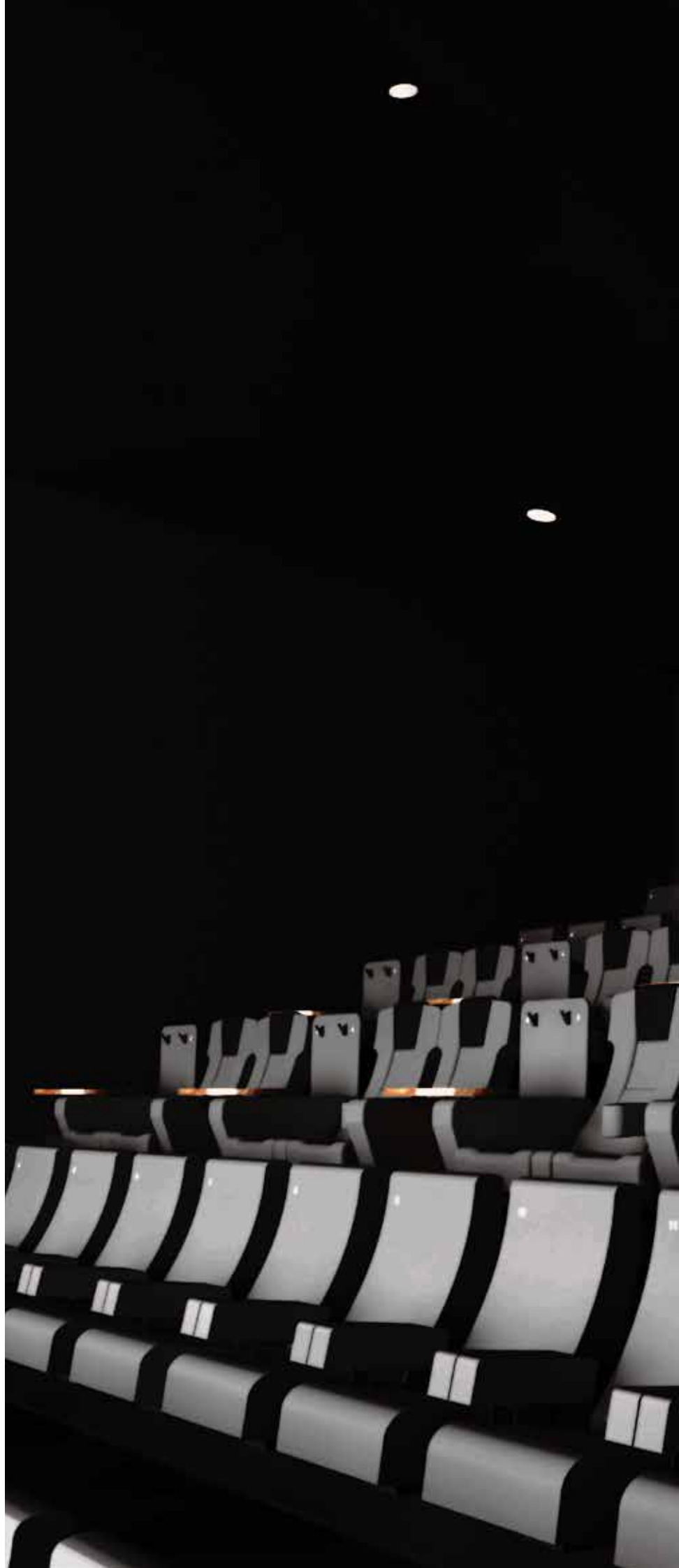
Correspondence address:  
Kinopolis Group NV  
Moutstraat 132-146  
B-9000 Ghent, Belgium  
info.group@kinopolis.com  
VAT BE 0415 928 179 –  
BRUSSELS RPR

Investor Relations:  
Nicolas De Clercq, CFO  
Tine Duyck, Executive Assistant CFO & IR Coordinator  
investor-relations@kinopolis.com

Investor Relations website:  
[www.kinopolis.com/investors](http://www.kinopolis.com/investors)

Creation: [www.linknv.be](http://www.linknv.be)

This report is available in printed version and online in  
English, French and Dutch.







**KINEPOLIS**

<http://investors.kinepolis.com>