Cinema City International N.V.

Annual Report
for the year ended
31 December 2012

GENERAL INFORMATION

Management Board

Moshe Greidinger
Amos Weltsch
Israel Greidinger

Supervisory Board

Scott S. Rosenblum, Chairman
Carrie Twist
Frank Pierce
Peter Weishut
Yair Shilhav

Company secretary

Ohad Segal

Registered office

Weena 210-212
3012 NJ Rotterdam
The Netherlands

Auditors

Ernst & Young Accountants LLP
Antonio Vivaldistraat 150
1083 HP Amsterdam
The Netherlands

LETTER FROM THE CEO

Dear Shareholders,

I am pleased to report that 2012 was another successful year for us and an important transformational one as well.

We are proud to be amongst the largest cinema operators in Europe and to be the largest movie theatre chain in the CEE region. In 2012, we added another five cinemas and 62 screens bringing our total to 98 multiplexes and 952 screens. We are anticipating that in the near future we will reach our two "magic" numbers – 100 multiplexes and 1,000 screens.

In July, we celebrated the opening of our new flagship megaplex, the 24-screen Yes Planet in Rishon LeZion Israel. This new concept facility became a huge success from its first day of operation. The megaplex offers every variety of movie-viewing format in one location: 2D, 3D, IMAX® and the latest cutting-edge movie theatre technology, the "4DX" auditorium. The megaplex also offers VIP halls for special events.

During the year we also continued expanding in Bulgaria, Czech Republic and Romania, where we now have over 134 screens.

On the film distribution front, with the establishment of Forum Film Czech in March 2012, we are now active in all our countries of operation. In 2012, we distributed the two biggest international feature movies of the year: *The Hobbit: An Unexpected Journey* and *Skyfall*. We also distributed many other very successful titles including *The Avengers, Hunger Games, The Artist* and more.

Our cinema advertising business, conducted through our New Age Media subsidiaries, also had a successful year. We now cover cinema advertising for over 1,000 screens across our countries. While overall demand for cinema advertising remains stable across our markets, our overall results have been enhanced by the broad variety of advertising opportunities we offer in our multiplexes and by our ability to provide comprehensive cross-country programming to large international advertisers.

Our financial results in 2012 compared favourably to 2011. We recorded consolidated revenue of EUR 280.7 million, a 4.9% increase over 2011. We generated EUR 60.2 million of EBITDA, an increase of 12.7% over 2011, and net profit of EUR 24.8 million, 2.4% more than in 2011 (in both instances, excluding the one-time costs incurred from the Palace Cinemas acquisition). Attendance in our chain grew to 36.3 million tickets sold in 2012 compared to 35.5 million in the previous year.

Our 2012 results were enhanced by the completion of the full digitalization of our cinema chain in the first six months of 2012. This allowed us not only to offer state-of-the-art picture and sound quality, but also to realize lower operating costs, while giving us increased flexibility in programming. In 2012, we also benefitted from higher profitability from the Palace Cinemas theatres we acquired in 2011 resulting from our restricting activities the year before. Moreover, in 2012, we did not incur the one-time acquisition and restructuring costs related to Palace Cinemas, which totalled over EUR 3 million in 2011. These improvements in large part offset the slowdown in movie attendance in Poland during the year resulting primarily from the EURO Championships and the Olympic Games in the summer of 2012.

In December, we acquired the real estate business owned and managed by our parent company, Israel Theatres Ltd. This transaction was implemented for a variety of reasons including unifying potentially synergistic entertainment related projects with real estate development projects, which we believe will position our cinema operations in a competitively stronger position. The reunification of our businesses will also allow us to streamline project execution and avoid potential conflicts of interest within the Group. In addition, we believe that the timing of the acquisition of the real estate assets should offer the Company the potential for significant value appreciation in the coming years.

LETTER FROM THE CEO

The acquisition was financed through a new EUR 210 million credit facility provided by HSBC, BZ WBK, ING Bank and BNP Paribas. This facility replaced the existing Group credit facilities and, importantly, reflected the support and confidence of four major European banks.

Our 2013 plans for include opening new cinemas in shopping malls in Bulgaria, Romania, Poland and Israel. We are also commencing development of our second stand-alone real estate megaplex project in Jerusalem, Israel, which is scheduled to open in 2015 and which may be followed by similar projects in Poland. We have also already begun to install the 4DX movie theatre systems in several cinemas throughout our territories, which we believe will bring the very best big screen movie-going experience to our loyal customers. We also continue to actively monitor potential acquisition opportunities in Europe that may add substantial value to our business.

I once again wish to thank all of our Cinema City employees in our seven countries of operations who every day serve our clients with commitment and dedication, which is why our clients keep coming back again and again to Cinema City.

Films, the heart of our business, should continue to bring many exciting new chapters to our screens in 2013, including the second instalment of the *Hobbit*, subsequent instalments of the *Hangover*, *Die Hard*, *The Hunger Games and Iron Man 3* franchises and many other exciting international and domestic titles. We look forward to sharing these films with our tens of millions of loyal cinemagoers throughout our circuit.

Moshe Greidinger, CEO

14 March 2013

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Supervisory Board Report

We are pleased to present the financial statements of Cinema City International N.V. for the financial year 2012, accompanied by the report of the Management Board. Ernst & Young Accountants LLP audited the financial statements and issued an unqualified auditor's report. We recommend that the shareholders adopt the financial statements as presented.

We concur with the Management Board's proposal as set forth on page 123 to allocate the net profit for the year 2012, amounting to EUR 24,779,000, to retained earnings.

Supervision

During 2012, the Supervisory Board and the Management Board held seven meetings during which they discussed 1) the acquisition of the real estate business from the Company's parent company I.T. International Theatres Ltd, and 2) the proposed financing arrangement to replace the Company's existing credit facilities and to fund the acquisition. Both transactions were completed in December 2012. These matters are discussed in details below. In addition the following topics, among others, were discussed:

- the Company's business strategy, the corporate governance structure of the Company and the adherence to the Dutch and Polish corporate governance codes;
- risk management;
- performance review of the Management Board and evaluation of the Company's remuneration policy as well as the Company's long-term incentive plan;
- internal audit reports;
- Financial results and other related issues.

All Supervisory Board meetings held in 2012 were attended in person or by conference call by all of the members of the Supervisory Board.

Real Estate Transaction

On December 19, 2012, the Company signed and closed an agreement with Israel Theatres Real Estate Holding B.V. (a subsidiary of Israel Theatres Ltd. ('IT')) to acquire all of the shares in Israel Theatres Real Estate BV ('ITRE'). ITRE is a holding company which owns all of the shares in real estate development companies holding the following assets: Mall of Rousse and other plots of land in Bulgaria, an office building in Herzliya and 5 other properties in Israel and plots of land designated to develop an amusement park in Poland. In addition, ITRE is the economic beneficiary of a 32.11%-stake in the WSE listed Ronson Europe NV through a jointly controlled general partnership formed under Dutch law between its subsidiary, ITR 2012 B.V. and ITR Dori B.V.The general partners jointly exercise the voting rights attached to 64.22% of the shares in Ronson Europe NV.

The acquired assets were valued at an aggregate amount of EUR 143.8 million pursuant to independent third party valuations obtained by the Supervisory Board of the Company.

The purchase price for the shares in ITRE amounted to an aggregate of EUR 33.1 million. The Company assumed the (indirect) bank debt of ITRE of EUR 98.7 million and repaid the shareholder loan of ITRE of EUR 12.0 million. Historic loans granted by the Company to IT for a total of EUR 32.4 million were settled and offset with the payment of this transaction. Following completion of this transaction, IT became a holding entity with no operations and the Company now operates two business divisions: cinema operations and real estate operations.

Management of the Company believes that the return to unified cinema and real estate ownership and operations by the Company will position the Company in a competitively stronger position with regard to its cinema operations.

Supervisory Board report

By placing together the new entertainment related projects acquired from IT and the new, successful real estate projects of the Company, the Company can achieve considerable synergies and avoid future potential conflict of interests within the Group. In addition the timing of this acquisition of the real estate assets provides good potential for growth and the Company believes it will bring significant benefits in the coming years

The transaction was approved by an independent committee of the Company's Supervisory Board after several meetings and discussions with management and external advisors dealing with inter alia , the strategic fit of the transaction, risk assessment, due diligence, independent valuation, bank financing, debt service and identifying and dealing with potential conflicts of interest.

Bank Club Financing Agreement

Concurrently with the consummation of the ITRE acquision, the Company closed a new club bank financing agreement with three leading European banks, BZ WBK, HSBC and ING Bank, for a total of EUR 210 million including a EUR 70 million revolving credit line. In February 2013 an additional leading European bank, BNP Paribas, joined the new club bank financing group.

The term of the facility is 6 years. The facility may be used in EUR and PLN and have been secured mainly by pledges of shares in the Company's main subsidiaries, investment certificates and mortgages on its major real estate assets. The credit agreement provides for standard covenants including those relating to a pre-determined level of leverage (net leverage covenant) and margin. It also includes a change of control clause in case the Greidinger family's holdings in the Company decrease below 30% or another investor obtains control over the Company.

The new club financing agreement was used by the Company to finance the acquisition of ITRE, to refinance all other Group credit facilities (including the debt of the acquired business) and for other general corporate purposes.

The only other group financing that remains in place following the new club financing is a local Israeli financing of approximately EUR 40 million.

Special Committee of Independent Supervisory Board Members
The duty and role of the Special Committee of Independent Supervisory Board Members is to deal with situations where interest of the Company's management or other related parties are deemed or perceived to deviate from or potentially conflict with the interest of the Company and its stake holders, as may have been the case with the ITRE acquisition. For a more detailed description of the acquisition and the way the Supervisory Board and the Special Committee assessed, supervised and approved the acquisition, reference is made to the section 'Real Estate Transaction above and to the Directors' Report (page 29).

Audit Committee
The roles and responsibilities of the Audit Committee are to supervise, monitor and advise the Management Board and Supervisory Board on all matters related to risk management, audit, control and compliance to relevant financial legislation and regulations. The Audit Committee evaluates the performance of external auditors and related costs. During 2012, the Audit Committee met six times. The Audit Committee also held meetings with the external auditors.

Appointment Committee
The primary responsibility of this committee is to advise the Supervisory Board on matters relating to the nominations of both Management and Supervisory Board members. The Appointment Committee regularly reviews the Supervisory Board profile, its effectiveness and composition. The committee also reviews the performance of the members of the Management Board. During 2012, the Appointment Committee met once.

Supervisory Board report

Remuneration Committee
It is the primary task of the Remuneration Committee to propose to the Supervisory Board remuneration of the members of the Management Board, including a review and monitoring of the Group's total remuneration policy. During 2012, the Remuneration Committee met twice.

Composition of the Supervisory Board
In order to secure continuity within the Board, the Supervisory Board adopted an arrangement that provides for a staggered expiration of individual terms. In order to implement this arrangement, in June 2012, during the annual General Meeting of Shareholders, Mr Rosenblum was reappointed as Supervisory Director of the Company. His new term will expire in June 2016. For the upcoming General Meeting of Shareholders, the proposal will be to reappoint Mr Weishut, whose term expires in June 2013.

Financial statements
The Management Board has prepared the 2012 financial statements. These financial statements were discussed at an Audit Committee meeting attended by the auditors, who provided further information on the audit process and their audit findings.
These financial statements were further discussed and approved on March 12, 2013 by the Supervisory Board.

14 March 2013
For the Supervisory Board

Scott S. Rosenblum
Chairman

Corporate Governance

Governance structure

Cinema City International N.V. ('the Company') is a Dutch public company with a listing on the Warsaw Stock Exchange ('WSE'). For this reason the Company is subject to both Dutch and Polish rules and regulations regarding corporate governance.

Corporate Governance Code in the Netherlands

On 9 December 2003, the Dutch Corporate Governance Committee released the Dutch Corporate Governance Code. It was updated on 10 December 2008 by the Corporate Governance Code Monitoring Committee (the 'Committee') to take effect as of financial year 2009. The updated Dutch Corporate Governance Code ('the Code') contains principles and best practice provisions for management boards, supervisory boards, shareholders and general meetings of shareholders, financial reporting, auditors, disclosure, compliance and enforcement standards. The Committee has published its most recent monitoring report in December 2012.

Dutch companies listed on a government-recognised stock exchange, either in the Netherlands or elsewhere, are required under Dutch law to disclose in their annual reports whether or not they apply the provisions of the Code and, if they do not, to explain the reasons why. The Code provides that if a company's General Meeting of Shareholders explicitly approves the corporate governance structure and policy and endorses the explanation for any deviation from the best practice provisions, such company will be deemed to have complied with the Code.

The Company acknowledges the importance of good corporate governance. The Management and Supervisory Boards have reviewed the Code, and generally agree with its purport. The Boards have taken and will take any further steps they consider required and appropriate to further implement the Code and improve the Company's corporate governance features. This is very much a living process. It is the Company's policy to discuss the topic annually with the shareholders and schedule it for this purpose for the Annual General Meeting of Shareholders each financial year. The topic has been part of the agenda for each General Meeting of Shareholders since 2008.

The corporate governance policy and the corporate governance framework of the Company were approved for the first time by the shareholders in 2006 at the occasion of the IPO of the Company. In view of the evolution of the corporate governance structure and framework since then, the topic is scheduled for further discussion in the upcoming General Meeting of Shareholders to be held in June.

Exceptions to the application of the Dutch Corporate Governance Code

The Company endorses the Code and has applied the relevant best practice provisions of the Dutch Corporate Governance Code, except for the provisions set out below.

II. 2.4 *If options are granted, they shall, in any event, not be exercised in the first three years after the date of granting. The number of options to be granted shall be dependent on the achievement of challenging targets specified beforehand.*

On April 18, 2012 The Management Board of Company announces that based on the decision of the Supervisory Board of the Company, dated **5 April 2012**, approving the proposal of the Management Board, Mr Amos Weltsch (the "**Grantee**"), being a member of the Management Board of the Company and its Chief Operating Officer, was granted, as a part of his remuneration package, 650,000 share options, each entitling the Grantee to subscribe for one share in the Company at the issue price of PLN 29 per share (the "**Options**").

Exceptions to the application of the Dutch Corporate Governance Code (cont'd)

The Options will vest in forty-seven (47) equal monthly tranches of 13,542 Options, each on the last day of each month in the period from 30 April 2012 to 29 February 2016, with an additional tranche of 13,526 Options vesting on 31 March 2016. The Grantee may exercise the Options vested to him in each of the tranches on multiple occasions within two (2) years from the date the given tranche of Options was vested.

In addition 73,000 share options under the long term incentive plan which the Company implemented for employees that were set to expire in September 2012 were extended for one year, until September 2013. For details of the Option Plan reference is made to Note 18d to the Consolidated Financial Statements of the Group for the year ended 31 December 2012.

These options currently outstanding have been granted unconditionally and independent of the achievement of targets. The Company shall not amend these existing agreements. Considering that the Company was in a stage of development when the outstanding options were granted and that the setting of credible predetermined performance criteria at a term of at least three years was not practical at this stage, the Company did not apply this provision. As of the date of this Annual Report no options have been granted to any members of the Management Board, except Mr Weltsch as specified above.

III. 2.1 *The supervisory board members, with the exception of not more than one person, shall be independent within the meaning of best practice provision III. 2.2.*

The Company Supervisory Board currently consists of five members, of which four are independent within the meaning of the Dutch Corporate Governance Code.

The Company currently has one non-independent member of the Supervisory Board and therefore complies with the code. Until the passing away of Mr Coleman Greidinger on 15 October 2011, the Company had two non-independent members, which is a deviation from the Code. However, the composition of the Supervisory Board was at all times consistent with Polish corporate governance guidelines. Moreover, the Company's Articles of Association state that the Supervisory Board shall have at least two independent Supervisory Directors, which criterion is being met given the four independent members of the Supervisory Board. The Company may nominate a second non-independent member of the Supervisory Board in the future.

III. 6.5 *The terms of reference of the supervisory board shall contain rules on dealing with conflicts of interest and potential conflicts of interest between management board members, supervisory board members and the external auditor on the one hand and the company on the other. The terms of reference shall also stipulate which transactions require the approval of the supervisory board. The company shall draw up regulations governing ownership of and transactions in securities by management or supervisory board members, other than securities issued by their 'own' company.*

The Company believes that the restrictions under Dutch securities law are sufficient to govern the ownership of and transactions in securities by Supervisory and Management Board members. Implementing additional restrictions would potentially harm its ability to attract and ensure the continued services of Supervisory and Management Board members and the Company therefore believes that applying this best practice provision is not in its best interest.

IV. 3.1 *Meetings with analysts, presentations to analysts, presentations to investors and institutional investors and press conferences shall be announced in advance on the company's website and by means of press releases. Provision shall be made for all shareholders to follow these meetings and presentations in real time, for example by means of web casting or telephone lines. After the meetings, the presentations shall be posted on the company's website.*

Information on the meetings and conference calls are sent to a wide group of analysts and investors who have subscribed to the Company's mailing list. Presentations are posted on its website prior to the meetings in question in order to enable the participants to acknowledge them.

Transactions with a conflict of interest

During the financial year 2012 no transactions as referred to in best practice provisions II. 3.4, III. 6.3 and III. 6.4 took place involving a conflict of interest relating to directors, Supervisory Board members or natural and/or legal persons holding at least 10% of the shares in the Company, with the exception of:

1. The acquisition during the second quarter of 2012 of the non-controlling interest in Norma Film Ltd. The 50% interest in Norma Film Ltd (Forum Film Israel) was acquired from I.M Greidinger Ltd. ("IMG"), an Israeli company owned by Messrs Moshe Greidinger and Israel Greidinger, both Managing Directors and (indirectly) shareholders of the Company.
2. The acquisition On December 19, 2012 of 100% interest in Israel Theatres Real Estate B.V., which holds real estate assets which are located in Bulgaria, Israel and Poland. Israel Theatres Real Estate B.V. is a subsidiary of Israel Theatres Ltd, an Israeli company owned by Messrs Moshe Greidinger and Israel Greidinger, both Managing Directors and (indirectly) shareholders of the Company.
3. The loans provided by the Company to Israel Theatres Ltd. in the second half of 2012. The loans was for an aggregate principal amount of EUR 17 million and bears interest at a rate of Euribor + 4.25% The parties agreed that the loans would be repaid by Israel Theatres Ltd. in one instalment , by no later than June 2013. As of 31 December 2012 this loans was settled as part of the above-mentioned real estate acquisition

Best practice provisions II. 3.2, II. 3.3, III. 6.1 and III. 6.2 were applied. In order to address the potential conflict of interest issue underlying three transactions, the independent Supervisory Directors, together with the Company's Audit Committee, considered and approved each of the three transactions.

Statement referred to in Section 3 of the Decree of 23 December 2004, Stb 747, determining the further requirements concerning the contents of annual reports

Based on Section 391 of Book 2 of the Dutch Civil Code (Act of 9 July 2004, Stb 370 to amend Book 2, CC) and the Royal Decree of 23 December 2004, limited liability companies, whose shares – to put it briefly – are listed on a regulated stock exchange, must include a statement in their annual reports about their compliance with the principles and best practices of the Code.

In light of the foregoing, the Company confirms that in the year under review, it did not comply fully with the provisions of the Code, nor does it intend to comply with these during the current financial year or the next financial year. Its reasons for doing so are explained in the paragraphs above.

Corporate governance code of the Warsaw Stock Exchange

The Code of Best Practice for WSE listed companies (the 'WSE Corporate Governance Rules') applies to companies listed on the WSE, irrespective of whether such companies are incorporated in Poland or outside of Poland. The WSE Corporate Governance Rules consist of general recommendations relating to best practices for listed companies (Part I) and best practice provisions relating to Management Boards, supervisory board members and shareholders (Parts II to IV).

The WSE Corporate Governance Rules impose upon the companies listed on the WSE an obligation to disclose in their current reports continuous or incidental non-compliance with best practice provisions (with the exception of the rules set forth in Part I. Moreover, every year each WSE-listed Company is required to publish a detailed statement on any non-compliance with the WSE Corporate Governance Rules (including the rules set forth in Part I) by way of a statement submitted with the company's annual report (the 'Yearly Compliance Statement').

Companies listed on the WSE are required to justify non- or partial compliance with any WSE Corporate Governance Rules and to show the ways of eliminating the possible consequences of such non-compliance or the steps such company intends to take to mitigate the risk of non-compliance with such rule in future.

In compliance with §29 sec. 5 of the Warsaw Stock Exchange Rules, each year the Company publishes a separate report on its compliance with the Warsaw Stock Exchange Corporate Governance Rules which is submitted to the Warsaw Stock Exchange and which will be available from the Company's website (www.cinemacity.nl).

The Company makes all efforts to comply with all principles of both the Dutch Code and the WSE Corporate Governance Rules and to enforce such corporate structure that ensures the Company's transparency to the most possible extent. The Company believes that its efforts are appreciated by its stakeholders and that these efforts will support the Company's growth and its reliability.

General Meeting of Shareholders

Per the Articles of Association* of the Company, the Annual General Meeting of Shareholders shall be held within six months after the end of the financial year to deal with, among other matters: (i) the annual report, (ii) the adoption of the financial statements, (iii) a discussion of any substantial changes in corporate governance, (iv) a discussion of the remuneration policy in respect of the Management Board, (v) granting of discharge to the members of the Management Board for their management over the past financial year, (vi) a discussion of the remuneration policy in respect of the Supervisory Board, (vii) granting of discharge to the members of the Supervisory Board for their supervision over the past financial year, (viii) policy on additions to reserves and dividends, (ix) the adoption of the profit appropriation, (x) a (re)appointment of members of the Management Board and (xi) a (re)appointment of members of the Supervisory Board.

* Most recently amended on 23 June 2011

General Meeting of Shareholders (cont'd)

Other General Meetings of Shareholders shall be held as often as the Management Board or the Supervisory Board deems necessary. Shareholders representing in the aggregate at least one-tenth of the Company's issued capital may request the Management Board or the Supervisory Board to convene a General Meeting of Shareholders, stating specifically the issues to be discussed. Shareholders representing more than 50% of the issued share capital may call a shareholders' meeting without a preceding request to the management board to call a meeting.

Resolutions shall be passed by an absolute majority of the votes cast, unless the law or the Articles of Association prescribe a greater majority. A decision by the General Meeting to amend the Articles of Association or to dissolve the Company can only be taken at the proposal of the Board of Managing Directors, which has been approved by the Board of Supervisory Directors.

Supervisory Board and Management Board

The Company has a two-tier corporate governance structure, consisting of a(n) (executive) Management Board (the 'Management Board') and a (non-executive) Supervisory Board (the 'Supervisory Board'). The day-to-day management and policy-making of the Company is vested in the Management Board, under the supervision of the Supervisory Board. There are currently three members of the Management Board whose names are set out below. The Supervisory Board supervises the Management Board and the Company's general course of affairs and the business it conducts. It also supports the Management Board with advice. In performing their duties the Supervisory Board members must act in accordance with the interests of the Company and the business connected with it.

As of 1 January 2013 the Act on Management and Supervision ('Wet Bestuur en Toezicht') came into effect. With this Act, statutory provisions were introduced to ensure a balanced representation of men and women in management boards and supervisory boards of companies governed by this Act. Balanced representation of men and women is deemed to exist if at least 30% of the seats are filled by men and at least 30% are filled by women.
The Company, has currently one seats taken by women. Since the Company does not comply with the law in this respect, it has looked into the reasons for non-compliance. The Supervisory Board recognizes the benefits of diversity, including gender balance. However, the Supervisory Board feels that gender is only one part of diversity. Supervisory Board and Management Board members will continue to be selected on the basis of wide ranging experience, backgrounds, skills, knowledge and insights. The Supervisory Board continues to strive for more diversity in both the Supervisory Board and Management Board. For more information on the rules of the Supervisory Board please refer to the profile of the Supervisory Board on the Company website

Supervisory Board and Supervisory Board committees

The Articles of Association of the Company provide that the Company shall have a Supervisory Board consisting of at least three and at most nine persons of which at least two Supervisory Directors shall be independent. Supervisory Directors are appointed by the General Meeting of Shareholders for a period of four years. After holding office for the first period of four years, Supervisory Directors are eligible for re-election for two additional terms of four years each. The General Meeting of Shareholders shall establish the remuneration for each Supervisory Director.

As noted above, in order to secure continuity within the Board, the Supervisory Board has adopted an arrangement that provides for a staggered expiration of individual terms. In order to implement this arrangement, the reappointment for a four-year term of one member of the Supervisory Board was scheduled prematurely for the Annual General Meetings of Shareholders in June 2011, and the next several years, a proposal will be offered to reappoint at least one Supervisory Board member to maintain a staggered expiration of terms.

The Supervisory Board is supported by four committees:

- the Audit Committee.
- the Selection and Appointment Committee.
- the Remuneration Committee.
- the Special Committee of Independent Supervisory Board Members.

These committees are composed of members of the Supervisory Board with relevant experience. All committees operate under the overall responsibility of the Supervisory Board, in accordance with the best practice stipulations of the Code.

Composition of the Supervisory Board

Scott S. Rosenblum (male, 4 October 1949, U.S. nationality)
Scott S. Rosenblum was appointed as a member of the Supervisory Board in 2004 and was elected Vice-Chairman of the Supervisory Board in 19 November 2010 until November 14, 2011 when he was appointed Chairman of the Supervisory Board. He was appointed Chairman of the Remuneration Committee and the Appointment Committee in November 2006 and is also a member of the Audit Committee. He is licensed as a lawyer and admitted to the New York Bar Association. For the past twenty years he has been a partner in the law firm of Kramer Levin Naftalis & Frankel LLP, New York, and was Managing Partner between 1994 and 2000. He is currently a director of Temco Service Industries, Inc. He is also legal adviser to Israel Theatres Ltd., the indirect shareholder of the Company. His current term as Supervisory Director expires in June 2016.

Yair Shilhav (male, 12 October 1958, Israeli nationality)
Yair Shilhav was appointed as a member of the Supervisory Board in November 2006, and is the Chairman of the Audit Committee. Since 2004, Mr Shilhav has been the owner of a business consulting office. Between 2000 and 2003, he was a member of the executive directory committee of the audit firm, Somekh Chaikin, a member of KPMG ('Somekh Chaikin'). Between 1995 and 2003, he was the head of the Haifa branch of Somekh Chaikin, of which he was partner from 1990 to 2003. Prior to becoming a partner at Somekh Chaikin, he was head of the professional and finance department of the same firm. He was also the head of the accountancy faculty at Haifa University between 1998 and 2002. His current term as Supervisory Board Director expires in June 2015.

A. Frank Pierce (male, 4 April 1930, U.S. nationality)
Frank Pierce was appointed as a member of the Supervisory Board in 2004 and, as of November 2006, has been a member of the Remuneration Committee and the Selection and Appointment Committee. From 1996 to the present time, he has worked as a consultant providing services related to the international motion picture distribution. Between 1954 and 1972, Mr Pierce held various executive positions with Columbia Pictures International, Paramount Pictures International and Cinema International Corporation. From 1972 to 1993, he served as Vice President of Europe for Warner Brothers Theatrical Distributions. From 1993 to 1996, he served as Senior Vice President for European Theatrical Distributions, Time Warner Entertainment. Mr Pierce served as a director in Luna Production Ltd, a UK subsidiary of New Regency Productions, Inc. and from 1 October 2001 until 1 January 2012, he served as President of Frank Pierce Partners, International Theatrical Representation. He received his B.A. and M.A. from Boston College in the United States. His current term as Supervisory Director expires in June 2015.

Caroline M. Twist (female, 25 January 1956, U.K. nationality)
Caroline Twist was appointed as a member of the Supervisory Board in 2004 and, as of November 2006, has been a member of the Remuneration Committee. Between 1978 and 1989, Ms Twist worked in the UK cinema exhibition industry in a variety of managerial roles at ABC/Thorn EMI cinemas and C.I.C. Theatres. From 1989 until 2011, Ms Twist has held various senior managerial positions within Clarity-Pacer CATS, software ticketing system provider. She joined Radiant-NCR in 2011, the global technology solutions provider. Her current term as Supervisory Director expires in June 2014.

Peter J. Weishut (male, 31 July 1935, Dutch nationality)
Peter Weishut was appointed as a member of the Supervisory Board in 2004 and, as of November 2006, has been a member of the Selection and Appointment Committee. Between 1969 and 1997, Mr Weishut worked as a director in Akzo Nobel in the Netherlands and Japan. From 1997 to 1999, he served as Management Consultant for Rafino, producer of pet foods, in the Netherlands. Between 1999 and 2001, Mr Weishut was the treasurer of a foundation celebrating the 400-year relationship between the Netherlands and Japan.

He is currently advising college students to set up their own companies. His current term as Supervisory Director expires in June 2013.

Management Board

The management of the Company is entrusted to the Management Board under the supervision of the Supervisory Board. The Articles of Association provide that the Management Board shall consist of two or more managing directors. Managing directors are appointed by the General Meeting of Shareholders. The Management Board shall meet as often as a managing director requests a meeting. All resolutions by the Management Board shall be adopted by an absolute majority of the votes cast.

The Management Board as a whole is responsible for the day-to-day management, including comprehensive risk management control, financing and regulatory compliance. Cinema City International N.V. and its operating companies ('the Group') are organised along clear functional reporting lines. Throughout the Group, corporate and operating accountabilities, roles and responsibilities are in place.

Composition of the Management Board

Moshe J. (Mooky) Greidinger (male, 12 December 1952, Israeli nationality)

Moshe J. (Mooky) Greidinger was appointed Chief Executive Officer of the Company in 1984. Mr Greidinger joined the Company in 1976. Since 1984, he has held executive positions with the Company with substantially the same responsibilities as he presently maintains. Mr Greidinger has also served as a director and Deputy Managing Director of Israel Theatres Ltd. since 1983 and Co-Chairman of the Cinema Owners Association in Israel since August 1996. He is the brother of Israel Greidinger and the son of the late Coleman Greidinger. His current term as Managing Director expires in June 2016.

Amos Weltsch (male, 28 November 1950, Israeli nationality)

Amos Weltsch joined the Company in 1980 at which time he was appointed Chief Operating Officer of the Company. Since that time, Mr Weltsch has held executive positions with the Company with substantially the same responsibilities as he presently maintains. He has also held various senior management positions with Israel Theatres Ltd. and affiliated companies since 1980. From 1974 to 1978, he was a manager at L Glickman Building Materials, and from 1978 to 1980, a managing director of Eitan Cement Ltd. His current term as Managing Director expires in June 2016.

Israel Greidinger (male, 14 April 1961, Israeli nationality)

Israel Greidinger joined the Company in 1994 and was appointed Chief Financial Officer of the Company in 1995. Since that time, he has held executive positions with the Company with substantially the same responsibilities as he presently maintains. Mr Greidinger has also served as a director of Israel Theatres Ltd. since 1994. From 1985 to 1992, Mr Greidinger served as Managing Director of C.A.T.S. Ltd. (Computerised Automatic Ticket Sales), a London company, and from 1992 to 1994, he was President and Chief Executive Officer of Pacer Cats Inc. He is the brother of Moshe Greidinger and the son of the late Coleman Greidinger. His current term as Managing Director expires in June 2016.

Explanatory notes by reason of the Decree, Article 10 of the Takeover Directive

By reason of the Decree of 5 April 2006 to implement article 10 of Directive 2004/25/EC of the European Parliament and the Council of the European Union of 21 April 2004 regarding public takeover bids, Cinema City International N.V. ('the Company') can provide the following explanation.

a. Capital structure of the Company
The capital of the Company consists of one class of shares, being ordinary shares with a nominal value of EUR 0.01 each. Information on issued shares has been included under Note 18 to the Consolidated Financial Statements.

b. Restriction on transferring shares or issued depositary receipts with the Company's co-operation
The Articles of Association of the Company contain no restriction with respect to the transfer of shares. The Company has no depositary receipts issued with the Company's co-operation.

c. Duty to report interests in the Company
The Company has been notified regarding shareholders with a substantial holding in accordance with the Dutch Act on Financial Supervision (5% or more) in the Company, as per the register maintained by the Dutch Authority Financial Markets.

Entities with an interest of at least 5% in the Company's shares include:

- I.T. International Theatres Ltd.
- Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK
- ING Powszechne Towarzystwo Emerytalne S.A.

d. Special controlling rights
The Company has issued no shares with special controlling rights.

e. Employees' shares
The Company maintains a long-term incentive plan, under which plan option rights to acquire shares in the Company may be granted to employees of the Company or its subsidiaries, including the members of the Management Board. Options may be granted to purchase up to a maximum of 930,000 newly issued or repurchased shares. The Supervisory Board is authorised to determine, with the participation of at least one independent member of the Supervisory Board, the exact terms of any stock or stock-based incentive scheme.

f. Restriction on voting rights and issue of depositary receipts
No restrictions are currently imposed on voting rights attached to issued shares. The Company has no depositary receipts issued with the Company's cooperation.

g. Agreements with shareholders
Currently, the Company is unaware of any shareholder agreements.

Explanatory notes by reason of the Decree, Article 10 of the Takeover Directive (cont'd)

h. Regulations pertaining to the appointment and dismissal of executive and supervisory directors and amendments to the Articles of Association

By virtue of articles 15 and 16 of the Articles of Association, the General Meeting is authorised to appoint, suspend or dismiss members of the Management Board. By virtue of articles 23 and 24 of the Articles of Association, the General Meeting is authorised to appoint, suspend or dismiss members of the Supervisory Board. The members of the Management Board and the Supervisory Board may be suspended or dismissed by the General Meeting at any time. The Supervisory Board may recommend persons to be appointed as member of the Supervisory Board.
By virtue of article 43 of the Articles of Association, the Articles of Association can only be amended at the proposal of the Board of Managing Directors subject to approval from the Supervisory Board and the shareholders.

i. The powers of the board

By virtue of article 6 of the Articles of Association, the Company can only issue shares, subject to a proposal by the Management Board and approval by the Supervisory Board, pursuant to a resolution approved by the General Meeting or of any other corporate body designated to do so by a resolution of the General Meeting for a fixed period not exceeding five years. Such designation must be accompanied by a stipulation as to the number of shares that may be issued. On 21 June 2011, the General Meeting authorised the Board of Managing Directors for a period not exceeding five years to issue new shares with the discretion to exclude or restrict the shareholders' pre-emption right, provided that all relevant resolutions of the Board of Managing Directors regarding issue of shares and exclusion or restriction of pre-emption rights will be subject to prior approval by the Board of Supervisory Directors.

The Company may acquire its own shares, subject to certain legal restrictions, only if the Management Board has been authorised at the General Meeting to make such acquisitions, which authorisation shall be valid for not more than 18 months and shall specify the number of shares which may be acquired. On 21 June 2011, the Management Board has been authorised by the General Meeting to repurchase and/or alienate existing shares in the Company with such maximum of shares as allowed by the limitations under the Articles of Association and at a price not lower than the nominal value and not exceeding 110% of the average share price five days prior to the date of the transaction.
Both authorisations will allow the Company to execute the prevailing employee incentive plan and to issue new shares and to repurchase and alienate existing shares for general corporate purposes.

j. Important agreements when issuing a public bid

The Company is not aware of any existing agreement which is relevant in the context of the issuance of a public bid except for a limitation related to loans provided by Bank Leumi Israel. According to this limitation, all bank loans outstanding with Bank Leumi will become immediately payable, in case Israel Theatres' indirect holding in the Company will be below 51%.
In addition the new *Bank Club Financing Agreement* includes a change of control clause in case the holding in the Company by the Greidinger family decreases to below 30% or in case another investor obtains control over the Company.

k. Agreements with executive directors or employees in the event of a public bid

The employment contracts of the members of the Management Board do not contain any specific clauses which refer to a change of control in the Company.

Risk Profile and Risk Management

Risk profile

Supply and Quality of Movie Product

The Company remains dependent on the diversity of the supply and on the suppliers of movies. A lack of diverse motion picture products, failure by the industry to adequately promote their movies, or the poor quality of the motion pictures would have a negative effect on film attendance. The Company seeks to reduce this risk by, among other things, establishing longer-term relationships with the major independent movie studios, and by exhibiting a broad variety of movies in its theatres.

Competitive Environment

While the multiplex screen density in the Company's markets of operation in Central Europe in comparison to Western Europe remains relatively low and while it is precisely the Company's strategy to build modern multiplexes to service these under-screened markets, this low density could also be equally inviting to competitors who desire to compete in a market with relatively low barriers of entry. The Company's strategy has always been to gain a 'first mover advantage' in its territories by rapidly and efficiently developing state-of-the-art multi-screen complexes in strategically selected locations. As the Company recognises that consumers tend not to be brand conscious when they select their movie theatres, that puts a premium on location, the quality of the theatre and the diversity of the movie offering, all of which the Company endeavours to deliver better than its competition. Even as the movie theatre environment matures in the Company's territories of operation, the Company still believes that there are ample growth and development opportunities.

Movie Alternatives

The Company also competes with other movie and video delivery technologies, including cable television, the internet, in-home video and DVD, satellite and pay-per-view services. Traditionally, when motion picture distributors licensed their products in each local market, they refrained from or delayed licensing their motion pictures to these other delivery vehicles during the theatrical release window. We believe that a material contraction of the way people prefer to see movies, or in the current theatrical release window, could significantly dilute the consumer appeal of the in-theatre motion picture offering, which could have a material effect on the Company's business and results of operations. The movie exhibition industry is in the process of converting to digital 3D technology, and the Company in its markets is in the forefront of this technological revolution. We believe such revolution and the display of 3D movies can increase the appeal of movie theatres, and give them a new edge in their competition with the alternative choices listed above, particularly since we believe a mass home 3D market will not materialise in the near future.

Reliance on Leases

Except for several sites, the Company does not own the theatres it currently operates; they are all subject to leases. Accordingly, the Company is subject to the risk of failing to satisfy its lease obligations or to renew its leases on commercially reasonable terms. This risk is somewhat mitigated by the multiple number of long-term leases the Company maintains, which typically contain commercially desirable renewal provisions. Moreover, the Company continues to have strong relationships with the owners of its leased properties. Assuming no material changes in the relevant legislation relating to the Company's leased properties (such as tenancy and competition laws), the Company believes that the risks associated with leasing rather than owning its multiplex properties is manageable.

Risk Profile and Risk Management

Projects Under Development

The Company continues to have binding commitments for additional 31 sites with (representing approximately 340 screens). There is a risk that the construction of some of the malls for which lease agreements have already been signed will not commence or will not finish. However, the Company still believes that the planned opening of many of the multiplexes for which it has signed lease contracts will take place and that there is a potential to sign additional lease agreements which can replace canceled leases. As the Company, in most cases, does not begin to expend capital for theatre construction in its new theatres until very close to the scheduled opening date, the failure to complete any particular mall project or even a number of projects, should not have a material negative impact on the Company's ongoing operations and results, since such failure would not pose a significant financial risk to the Company. If the completion of mall projects is either delayed or cancelled, this would only impact the rate of the Company's future growth and not its ongoing operations.

Investment Properties Fair Value

The Company makes estimates and assumptions regarding the fair value of its investment properties that have a significant risk of causing a material adjustment to the amounts of assets and liabilities on the Company's balance sheet. In forming an opinion on fair value, the Company considers information from a variety of sources including, among others, the current prices in an active market, third party valuations and internal management estimates. The principal assumptions underlying the Company's estimates of fair value are those related to the receipt of contractual rentals, expected future market rentals, void/vacancy periods, maintenance requirements and discount rates that are deemed appropriate. The Company regularly compares these valuations to its actual market yield data and actual transactions and those reported by the market. The Company determines expected future market rents on the basis of current market rents for similar properties in the same location and condition.

Currency Risks

While the Company realises income in local currencies, it also incurs most of its costs in local currencies as well. However, some of the Company's long-term leases are denominated either in US dollars or in euros and the Company reports its results overall in euros. As a result, the Company can be negatively impacted by devaluation of the local currencies against the euro and the US dollar. In order to reduce this impact, the Company has entered into currency hedge contracts to protect its currency exposure. In addition, because the Company reports its financial results in euros, even with the benefit of the currency hedges, the Company's absolute numbers may be impacted by a significant devaluation. For example, the Company's revenues reported in euros may decrease as and when the Company's major local functional currencies, such as the Polish zloty, are devalued against the euro.

Risk profile (cont'd)

The Economy

There can be no assurance that the Company will not be materially adversely impacted if, among other potential negative trends, the European debt and euro crisis leads to a 'contagion' into adjacent regions. Continued softness in consumer spending, could result in an on-going weakness in 'mall traffic', which has historically supported theatre admissions. In addition, if consumers have less disposable income, discretionary entertainment choices, such as movie going, could be adversely impacted. Even if movie going itself is not materially adversely impacted, movie goers could determine to spend less money for food and drinks at the Company's high-margin concession stands. Moreover, advertisers could decrease their use of the Company's expanding theatre and screen advertising services. Management has noted, however, throughout years of economic distress, movie going often increases. Consumers typically desire to spend their smaller pools of discretionary funds on relatively inexpensive forms of 'escapist' entertainment such as movie going. The Company has seen strong admissions trends through the date of this report and continues to see no evidence of any downturn in theatre visits resulting from external economic factors.

Interest rate risk

The Company closed a new club bank financing agreement in December 2012, a six-year facility agreement consisting of a EUR 140 million term loan (split into EUR 102 million and EUR 38 million in Polish Zloty) and additionally a EUR 70 million revolving credit facility (split into EUR 51 million and EUR 19 millions in Polish Zloty). Early 2013, the Company concluded interest rate swap agreements for an amount of EUR 92.4 million (representing 66% of the term loan) for a period of two years in accordance with the terms of the facility agreement, on a weighted average fixed rate of 4.06% whilst the revolving credit facility and the rest of the term loan attract floating interest rates of EURIIBOR + 3.5% for amounts denominated in euro and WIBOR + 3.5% for amounts denominated in Polish złoty.

The Company has taken steps to ensure that the interest rate swap is accounted for as a hedge and that changes in its valuation are recognized through reserves. Further information is provided in Note 34 to the Consolidated Financial Statements.

Taxation risk

The Group companies are subject to taxation in the countries in which they operate. Partly due to the credit crises, governments in Europe are short of monies and are seeking to increase tax revenues. It is difficult to assess whether the company will have to pay more taxes due to changes made to the tax systems in the countries where the company operates, but it cannot be excluded. Ongoing financial instability and political changes create uncertainty and it is not possible to rule out potential changes in taxation which could have an impact on future financial performance.

Risk management

As part of its risk management measures, the Company has insurance policies for the most common risks associated with its activities, such as loss of profits, fire and third-party liability. In the Company's opinion, the insurance policies offer adequate coverage for the financial consequences if such risks should manifest themselves, in order to limit their impact on the result.

A number of balance sheet items in the financial statements of the Company are based on management estimates and assumptions relating to future results. If the actual results differ from the expected results, it may have a significant influence on the valuation of items such as deferred tax assets and liabilities, investment properties and provisions for claims, if any.

Various organisational measures and procedures have been implemented in order to improve the quality of operations and incorporate the correct checks and balances into the activities including approvals, authorisations, reviewing investment decisions and so on. In implementing the best-practice provisions of the Dutch and Polish corporate governance codes, the Company introduced an internal risk management and control system tailored to the Company and, over the years, amended this from time-to-time to reflect organisational changes. This system was designed (i) to manage the operational risks identified in each area of activity, (ii) to identify financial risks promptly and (iii) to ensure the quality of financial reporting. The system was incorporated into the Company's operating processes. During 2012, the proper operation of the internal risk management and control system has been monitored, among others by the Company's internal auditor. The evaluation was discussed with the members of the Audit Committee and the Supervisory Board. Lastly, the Company has a whistle blowing procedure in place to allow reporting of any suspected general, operational or financial irregularities.

The Company's Management Board believes that its existing risk management measures are sufficient to provide a reasonable degree of certainty as to the absence of material inaccuracies in the financial reporting, losses and fraud.

For a description of the Company's financial risk management and the Company's policies regarding financial instruments reference is made to Note 34 to the Consolidated Financial Statements.

Remuneration Report

Introduction

The Extraordinary General Meeting of Shareholders held on 24 November 2006, upon recommendation of the Supervisory Board, approved the Company's remuneration policy which sets forth the terms of remuneration of the members of the Management Board. The same General Meeting approved a long-term incentive plan for members of the Management Board and other key personnel of the Company and its subsidiaries. The remuneration for the Supervisory Board was also adopted at the same General Shareholders' Meeting. The Annual General Meeting of Shareholders held on 21 June 2012 , upon recommendation of the Supervisory Board approved the implementation of the a new long term incentive plan for one of the Management Board members.

Remuneration Policy

The objective of the Company's remuneration policy is to provide a compensation programme that allows the Company to attract, retain and motivate qualified people who have the character traits, skills and background to successfully lead and manage the Company. The remuneration policy is designed to reward members of the Management Board and other key personnel for their contribution to the success of the Company.

Governance

The General Meeting of Shareholders approves all aspects of the remuneration policy for the Management Board. The General Meeting of Shareholders further determines the remuneration of the Supervisory Board. Compensation of both the Supervisory Board and Management Board is reviewed regularly. The Supervisory Board has a dedicated Remuneration Committee.

Remuneration of the Management Board

Employment contracts

The three members of the Company's Management Board have employment contracts that are automatically renewed at the end of each year for another twelve months unless prior notice of termination is given by either party. The employment contracts also include a non-compete clause that requires each Managing Director to refrain from any activity that is competitive to the Company's activity for a period of twelve months after termination of employment. The Management Board members are paid a monthly base salary indexed to the Israeli consumer price index and further participate in a bonus pool equal to 6.65% of the Company's pre-tax profit before the bonus which is paid out on an annual basis.

As the bonus pool equals 6.65% of the Company's pre-tax profit (before the bonus) the relative significance of the variable component in the total remuneration for the Management Board members can vary from year to year depending on the achieved pre-tax profit.

In addition, under the terms of the employment contracts, the members of the Management Board are entitled to the use of a car, contribution to a severance fund, contribution to a statutory provident fund, a EUR 175 per diem payment for business travel days and reimbursement of reasonable business expenses, including payment of reasonable telephone bills. The members of the Management Board are not entitled to any benefits on termination of their employment except for a severance payment. For Messrs Moshe Greidinger and Israel Greidinger, the severance payment is equal to their monthly base salaries at the time of termination, multiplied by the number of years of employment by the Company. For Mr Weltsch, the severance payment is equal to the greater of: (a) the statutory amount accumulated in his policy account for severance pay and (b) his monthly base salary at the time of termination, multiplied by the number of years of his employment by the Company.

The Supervisory Board is of the opinion that the current remuneration structure including the variable components thereof is appropriate for the Company as it aligns the interests of the shareholders and the interest of the Management Board and incentivises management to focus on realising the Company’s strategy and its longer term success. The Supervisory Board reviews the remuneration on a year by year basis.

Long-term incentive plan

Towards the end of 2006, a new long-term incentive plan (the ‘Plan’) was implemented. The persons eligible for participation in the Plan are the employees of the Group, including the members of the Management Board. Under the Plan, options, rights to acquire shares in the Company and cash bonuses may be granted to the participants.

Under the Plan, options may be granted to purchase newly issued or repurchased shares. The Supervisory Board is authorised to determine, with the participation of at least one independent member of the Supervisory Board, the exact terms of any stock or stock-based incentive scheme. The actual grant of share options is disclosed in the Notes to the Consolidated Financial Statements.

In April 2012, Mr Amos Weltsch, member of the Management Board of the Company, was granted 650,000 options as a part of his remuneration package, each entitling him to subscribe for one share in the Company at the issue price of PLN 29 per share. The granting of the options was approved by the shareholders of the Company during the Annual General Meeting of the Company held on 21 June 2012. For further details including vesting dates and other conditions, reference is made to Note 18d to the 2012 Consolidated Financial statements.

Remuneration of the Supervisory Board

Each Supervisory Board member receives an annual remuneration of EUR 12,500 and EUR 1,500 per attendance at meetings or EUR 750 if attendance is by telephone.
The chairman of the Supervisory Board and the chairman of Audit Committee are entitled to an additional EUR 5,000 per year

Directors' Report

General

Introduction

Cinema City International N.V. (the 'Company' or 'Cinema City'), incorporated in the Netherlands, is a subsidiary of I.T. International Theatres Ltd. ('ITIT' or 'parent company'). The Company (and together with its subsidiaries, the 'Group'), is principally engaged in the operation of entertainment activities in various countries including: Poland, Hungary, the Czech Republic, Slovakia, Bulgaria, Romania and Israel. The Company, through related entities, has been a family operated theatre business since 1929. The Company shares are traded on the Warsaw Stock Exchange. As at 12 March 2013, the market price was PLN 28.10 (EUR 6.79) per share, giving the Company a market capitalisation of EUR 347.7 million. The Company's office is located in Rotterdam, the Netherlands.

Company overview

Cinema City is the largest cinema operator in Central and Eastern Europe as well as in Israel and the fourth largest cinema operator in all of Europe. The Company operates 98 multiplexes with a total of 952 screens in 7 countries: Poland, Israel, Hungary, the Czech Republic, Romania, Bulgaria and Slovakia. In the CEE countries the Company operates cinemas under the Cinema City brand and in Israel under the Yes Planet and Rav-Chen brands. Theatre operations are the Company's core business comprising selling tickets, snacks and beverages in concession stands as well as of cinema advertising run under its brand name New Age Media. The Company also maintains an exclusive arrangement with IMAX® Corporation to develop IMAX® theatres in the countries of its operation. The Company is one of the fastest growing cinema chains with plans to open 31 new multiplexes (approximately 340 screens) underpinned with binding lease agreements.

The Company also operates film distribution through its local subsidiary companies branded Forum Film in all its countries of operations. Forum Film serves as the exclusive motion picture distributor for Walt Disney Company and MGM studio in most of its countries of operation. In Israel, via its sub-distributor relationship with A.D. Matalon, the Company also distributes films for Sony and Fox studios and in Bulgaria Forum Film is the exclusive film distributor for Paramount and Universal studios.

The Company returned to its real estate activities when it completed the acquisition of substantially all of the real estate assets of its parent company ,in December 2012,which are located in Bulgaria, Israel and Poland. The acquired assets include: the Mall of Rousse and other plots of land in Bulgaria, plots of land designated to develop an amusement park in Poland, an indirect interest of 32.11% in Ronson Europe NV (RON:PL) and an office building in Herzliya and 5 other properties in Israel.

Business strategy

The Company's strategic objectives are to enhance its position as a leading operator of multiplex cinemas in Central Europe and Israel through continued expansion in Poland, Hungary, the Czech Republic, Bulgaria, Romania and Slovakia, to consider growth opportunities in new geographies in Europe when they present themselves and to strengthen its position as a leading motion picture exhibitor in Israel. The Company plans to continue to design and operate multiplex theatres, with cutting edge technologies, such as the installation of the digital, 3D, and more recently, 4DX, exhibition technologies and which it otherwise believes will promote increased attendance and maximise space and operating efficiencies through improved utilisation of theatre capacity and reduced labour costs. In conjunction with its movie exhibition business, the Company is also active in other movie related activities, including screen advertising and film distribution. The Company plans to continue developing its film related activities, mainly in Central Europe, and believes these operations will continue to play a key role in achieving the Company's objectives.

Management believes that the return to unified cinema and real estate ownership and operation by the Company will position the Company in a competitively stronger position with regard to its cinema operations. The entertainment related projects acquired from Israel Theatres combined with the Company's real estate projects share many common business and development attributes and the Company believes it can achieve considerable synergies by placing them together under one entity, which will centralize execution and avoid future potential conflict of interests within the Group. In addition, management believes that the timing of the acquisition of the real estate assets should offer the Company the potential for significant value appreciation in the coming years.

Economy and business developments during 2012

Economic environment

Central and Eastern Europe have undergone a massive economic transformation over the past 20 plus years which has brought about rapid modernisation, an improvement in living standards and a significant increase in disposable income per capita. This process has generally been accelerated for those countries that have gained full membership into the European Union.

Recently, the region appears to be emerging from a very difficult time characterised by economic downturns in most of the EU countries, a steep drop in the regions' real estate markets and a significant devaluation of the regional currencies. During this recessionary period, the Company is more actively monitoring its pricing policy, however so far, it did not see any negative impact on its theatre admissions as a consequence of the economic environment.

Nonetheless, the economic upheaval over the past three years followed by the more recent euro crisis has proven to be challenging in connection with managing foreign exchange risk as the past years revealed unusual volatility in currency exchange rates. For the most part, this is not a significant concern for the overall financial health of the Company, because while it realises income in local currencies, it also incurs most of its costs in local currencies. However, some of the Company's long-term leases are denominated either in US dollars or in euros and the Company reports its results overall in euros. During 2011, the Company entered into a number of currency hedge contracts against the Polish zloty and Hungarian forint to protect the currency risk affiliated with these payments until May 2012.

The Company continues to believe that in the long run, economically and demographically, Central and Eastern Europe will continue to be very favourable regions for future development, as these regions move ahead in closing the economic gap with Western Europe.

Cinema market

The Company believes that the movie exhibition market will continue to grow in Central and Eastern Europe for a number of reasons. First, throughout these territories, there continues to be a low supply of quality cinemas compared to Western European countries. The multiplex screen density in the Company's markets of operation in Poland, Hungary, the Czech Republic and Slovakia in comparison to Western Europe remains relatively low, while the multiplex penetration in Romania and Bulgaria compared to Western Europe remains particularly low. Second, per capita income has grown rapidly in these regions over the past decade, and, their populations continue to have significantly more disposable income as compared with a few years ago. Third, over the past decade, Central Europe has begun to develop a 'movie going' culture that has been reflected in increasing multiplex per head admissions. Fourth, movies are a relatively inexpensive form of outside entertainment, and the Company has found through the years that economic downturns have tended to have a relatively small impact on movie going habits, and indeed, in some cases has resulted in increased movie admissions. As a result, the Company remains overall 'bullish' in its approach to developing theatres in its countries of operation.

Competitive environment

Poland

Cinema City remains the clear leader in the Polish movie exhibition market. As of 31 December 2012, the Company operated 339 screens (including 5 IMAX® theatres) in 31 cinemas, and had an approximately 35% market share in terms of total number of admissions in Poland in 2012. In the Polish market, the Company now has two main competitors: Multikino (226 screens in 27 theatres) and Helios (166 screens in 31 theatres).

Apart from being the market leader in the movie exhibition industry in Poland, Cinema City owns and operates the leading cinema advertising sales house, New Age Media, and is one of the major film distributors through its Forum Film Poland subsidiary. Forum Film Poland distributes films from Spyglass, MGM and several other independent producers and domestic film studios.

Hungary

Following the acquisition of Palace Cinemas Hungary in January 2011, Cinema City became the largest exhibitor in Hungary in number of screens (176 screens including one IMAX® theatre). During 2011, the Company added four location multiplexes in Budapest with a total of 47 screens. In addition during 2011 , the Company closed 3 screens and signed new lease agreements for and started the operation of three multiplexes previously run by Palace Mozi in Hungary, with a total of 17 screens.

The main competitors in Hungary are Budapest Film (16 screens), Magyar Moziüzemeltető Kft (9 screens), Maximozi Kft (6 screens) and Óbudai Moziüzemeltető Kft (7 screens)

Apart from being the market leader in the movie exhibition industry in Hungary, Cinema City owns and operates a leading cinema advertising sales house, New Age Media, and is a major film distributor through its Forum Film Hungary subsidiary. Forum Film Hungary is the exclusive distributor of Buena Vista International, distributing movies of Disney and Touchstone. In addition, Forum Film Hungary distributes films from Spyglass, MGM and several other independent producers.

The Czech Republic

Cinema City is the largest cinema operators in the Czech Republic with a relatively strong presence in Prague. As of 31 December 2012, the Company operates 111 screens (including one IMAX® theatre). Following the acquisition of Palace Cinema's Czech operations, Cinema City added 8 multiplexes with 65 screens and the opening of Cinema City in Ostrava in March 2012 . The Company has an approximately 35% market share in terms of number of admissions in 2012. The Company's main competitor in the Czech market is Cinestar (89 screens).

Apart from being the market leader in the movie exhibition industry in the Czech Republic, Cinema City owns and operates a leading cinema advertising sales house. During 2011, the Company established a film distribution company in the Czech Republic, Forum Film Czech s.r.o. The activity of this distribution company started in March 2012. Forum Film Czech distributes films from Spyglass, MGM and several other independent producers.

Slovakia

In January 2011, Cinema City acquired from Palace Cinemas 3 multiplexes with 29 screens all located in Bratislava. The Company intends to develop its activity in this new market. The Company's main competitor in the Slovakian market is CineMax (37 screens). In addition, Cinema City owns and operates a leading cinema advertising sales house.

In May 2011, the Company launched its film distribution operations in Slovakia, Forum Film Slovakia. Forum Film Slovakia distributes films from Spyglass, MGM and several other independent producers.

Bulgaria

The Company currently operates 5 modern multiplexes in Bulgaria with a total of 50 screens and one IMAX® theatre.

The Company's main competitor in the Bulgarian market is Arena Cinemas (70 screens).

The Company has signed contracts for a number of additional multiplexes, which it plans to open in the coming two years. By the end of Q1 2013 the Company plans to open its second cinema in Sofia, in Paradise Shopping Mall. The multiplex will have 14 screens, and will include one 4DX screen. In addition, the Company undertakes film distribution and screen advertising activities in Bulgaria. Forum Film Bulgaria is the exclusive distributor of Disney, MGM and UIP (Paramount and Universal) movies in the country.

Romania

Cinema City is the largest operator of multiplex theatres in Romania. The Company currently runs 14 modern multiplexes in 12 cities with a total screen count of 134. Three of these multiplexes were opened in 2011 and another two in 2012. The Company has entered into additional lease agreements, which contemplate the opening of approximately an additional 210 screens in Romania in the coming years.

Romania is the largest underdeveloped movie theatre market in Central Europe. With one of the lowest admissions per capita rates in all of Europe, the Company believes that Romania, with over 22 million people, presents a very compelling opportunity for the Company.

Lack of investment in cinemas through the years led to a dramatic decrease in the number of cinema screens. Old cinemas were closed down and admissions decreased dramatically. Outside of Cinema City's recently opened theatres in Romania, the country currently has very few multiplexes. A number of the multiplexes in Romania are owned by private companies. In addition, there are approximately 45 single screen cinemas in Romania, most of which have remained state-owned.

Apart from being the market leader in the movie exhibition industry in Romania, Cinema City owns and operates a cinema advertising sales house, New Age Media, and has commenced film distribution activities through its Forum Film Romania subsidiary. Forum Film Romania is the exclusive distributor of Buena Vista International, distributing movies of Disney and Touchstone. In addition, Forum Film Romania distributes films from Spyglass, MGM and several other independent producers.

Israel

The Company operates in Israel under the brand name of 'Rav-Chen' and 'Yes Planet' (the brand name 'Cinema City' was previously reserved in Israel by a competitor). As of 31 December 2012, the Company operated 112 screens in 12 cinemas, and had an approximately 35% market share in terms of number of admissions in Israel during 2012.

In the Israeli market, the Company now has two main competitors – Globus (83 screens in 11 theatres) and Cinema City (a brand registered in Israel by a competitor with 54 screens in 5 theatres).

The Company continues to modernise and upgrade its Israeli chain, and strengthen its position in the Israeli market, through the closing of its smallest and oldest multiplexes whilst opening modern state-of-the-art larger multiplex theatres. In July 2012, the Company opened its third Yes Planet Megaplex in Israel, south of Tel Aviv, in Rishon LeZion, which became the Company's flagship operation in the country with 24 screens including the Company's first 4DX screen and IMAX® screen in the country.

The Company is also a major film distributor, through its Forum Film Israel subsidiary. Forum Film Israel is the exclusive film distributor of Disney, 20th Century Fox, Columbia (Sony) and several other independent film companies. With respect to 20th Century Fox and Columbia (Sony), the Company acts as exclusive distributer through its arrangement as sub-distributer with A.D Matalon, the primary distributor for these two major studios. The Company's main competitor in the distribution business is Globus which, through its own distribution channel, acts as a distributor for Warner Universal and Paramount.

The Company is also actively involved in pursuing the growing screen advertising market in Israel.

Business highlights during 2012

- **Consolidated financial results of Cinema City in 2012 enhanced by new cinema openings, completion of digitalisation and the integration of Palace cinemas.** In 2012 Cinema City generated revenues of EUR 280.7 million (+ 4.9% over 2011) and EBITDA of EUR 60.2 million, (+12.7% compared to 2011) and net profit of EUR 24.8 million (+2.4% compared to 2011), both excluding acquisition-related and reorganisation expenses incurred in 2011. Including acquisition-related and reorganisation expenses incurred in 2011, 2012 EBITDA increased by 20.1% and net profit increased 18.4% compare to 2011.

- **Improved margins generated by Cinema City in 2012.** EBITDA margin equalled 21.5% and net margin 8.9%, up by 1.5 ppt and flat respectively, both excluding acquisition-related and reorganization expenses incurred in 2011. Including acquisition-related and reorganisation expenses incurred in 2011, 2012 EBITDA margin and net margin went up by 2.8 ppt and 1.0 ppt respectively.

- **Strong financial results in the 4th quarter 2012.** In the quarter ended 31 December 2012, Cinema City generated EUR 84.6 million revenues (+21.1% compared to the quarter ended 31 December 2011). Excluding acquisition-related and reorganisation expenses incurred in the quarter ended 31 December 2011, consolidated EBITDA was EUR 18.4 million (+21.9% compared to the quarter ended 31 December 2011) and net profit totalled EUR 9.3 million (+ 45.7% compared to the quarter ended 31 December 2011). Including acquisition-related and reorganisation expenses incurred in the quarter ended 31 December 2011, 2012 EBITDA and net profit went up by 24% and 51.8%, respectively, over 2011 fourth quarter. The net profit for the 4th quarter 2012 was positively impacted by consolidation of the net profit from Ronson Europe NV in the amount of EUR 1.4 million.

- **Theatre operations performed well in 2012.** The number of admissions went up to 36.3 million (+2.5% compared to 2011) and on a same theatre basis the number of admission was 34.4 million (-2.5% compared to 2011). **In 2012 theatre operations generated revenues of EUR 253.3 million and EBITDA of EUR 54.2 million,** growing by 3.9% and 6.8% respectively (compared to 2011) both excluding acquisition-related and reorganisation expenses incurred in 2011. Average ticket price remained stable at EUR 4.56, while in local currencies average ticket prices increased in most of the Company's territories. Revenue per admission increased to EUR 1.53 (+ 4% compared to 2011).

- **Theatre operations in the 4th quarter 2012.** The number of admissions went up to 10.5 million (+11% compared to the 4th quarter in 2011) and on a same theatre basis the number of admission was 9.8 million (+4.2% compared to the 4th quarter in 2011). **In the 4th quarter 2012 theatre operation generated revenues of EUR 73.8 million and EBITDA of EUR 16.7 million,** growing by 17.6% and 17.4% respectively (compared to the 4th quarter of 2011) both excluding acquisition-related and reorganisation expenses incurred in the 4th quarter of 2011.

- **New openings, closings and future development of Cinema City chain.** In 2012, the Company opened 5 new cinemas with a total of 62 screens including: Yes Planet Rishon LeZion, Israel (24 screens with IMAX® and 4DX), 8-screen multiplex in Constanza and 12- screen multiplex in Ploiesti , both in Romania, 10-screen multiplex in Burgas, Bulgaria and 8-screen multiplex in Ostrava, Czech Republic. During the year, 11 screens were closed: 8- screens in Hostivar, Czech Republic and 3-screens in Bat Yam, Israel. The Company signed two lease agreements for future multiplexes in Israel, in Zihron Ya'akov (11 screens) and in Beer Sheva (18 screens). The Company has also conducted preliminary work for its new real estate type cinema in Jerusalem, Israel. **The Company's total screen count as at 31 December 2012 is 952 in 98 multiplexes (including 10 IMAX® theatres and 1 4DX auditorium**).

- **Cinema City is now fully digital:** In the first half year of 2012 the Company completed the digitalisation of all of its movie exhibition auditoriums and now operates digital projectors on all of its screens.

- **The Company's Film distribution business continued to grow with higher EBITDA.** During 2012 Forum Film companies distributed Skyfall and Hobbit in most of the Company's markets as well were buying more distribution rights for independent movies, which translated into overall higher business volumes for the Company's film distribution business. In March 2012, the Company launched Forum Film Czech. The Company now acts as a film distributor in every country in which it operates.

- **Acquisition of Real Estate Business from Israel Theatres Ltd**. In December 2012 Cinema City acquired all of the real estate business from its parent company Israel Theatres. The acquired assets include: the Mall of Rousse and other plots of land in Bulgaria, plots of land designated to develop an amusement park in Poland, an indirect interest of 32.11% in Ronson Europe NV (RON:PL) and in Israel an office building in Herzliya and 5 other properties.

- **The Company signed a bank club financing agreement for a total amount of EUR 210 million with leading European banks.** The participating banks included BZ WBK (Santander Group), ING Bank and HSBC. The new credit facility was used to finance the Israel Theatres acquisition , refinance its existing debts and to finance the Company's new cinema projects. During February 2013 an additional European leading bank, BNP Paribas, joined the new club bank financing group.

Theatre operations

The Company's theatre operations in 2012 generated revenue of EUR 253.3 million, an increase of +3.9% compared to 2011. This increase is mainly due to the increase of the average ticket price in Euro and in local currencies in most of the Company's territories of operation and the increase in the admission number in most of the territories. During the period, the Company sold 36.3 million tickets, which was 2.5% higher than the previous year and varied by territory from positive volumes in Hungary, Romania, Israel, Czech Republic and Bulgaria, through stable attendance in Slovakia and lower admissions in Poland. Ticket sales in Poland were impacted by more modest Polish domestic production compared to a very good 2011 in combination with the effect of the EURO Championship, which was held in Poland during June. The 2012 revenue increase was partly offset mainly due to the weakness of the Polish zloty, Hungarian forint and Romanian lei against the Euro compared to 2011. On a same theatre basis, the Company sold an aggregate of 34.4 million tickets in 2012, 2.8% less than 2011. The average ticket price was EUR 4.56, an increase of 0.8% over 2011.

The most notable international titles of the fourth quarter of 2012 were *The Hobbit: An Unexpected Journey* and *Skyfall*. A good movie line-up, as predicted, was scheduled for the second half year of 2012 by film studios to avoid competition with EURO Championships and summer Olympics Games. The Company also recorded a strong opening period for its new flagship megaplex in Rishon LeZion, Israel, which continues delivering high volumes including premium priced shows for its IMAX® and 4DX theatres.
During 2012 the acquired multiplexes of Palace Cinemas, which had already been fully integrated into Cinema City's organisation in 2011, continued to deliver positive results from the integration. In 2012 the Company was no longer incurring any one-time restructuring costs due to Palace Cinemas, which in 2011 accounted for over EUR 3 million.

During 2012, the Company was still re-negotiating several Palace lease agreements, which if successfully completed should bring additional costs savings in 2013. Re-negotiation of rents is being conducted together with refurbishment and re-designing of certain cinemas. In 2012 the Company has fully refurbished two premier sites: CC Novy Smichov in Prague, Czech Republic and CC West End in Budapest, Hungary.

New openings, closing and signing of subsequent lease agreements

In March 2012, the Company opened its first multiplex in Ostrava, Czech Republic (8 screens). This Cinema is the second multiplex in Ostrava, and given that the only other multiplex in the city has historically generated very high admission rates, the Company believes this will be a good strategic addition to the Company's theatre chain. In May 2012 the Company opened 2 new cinemas: the first in Burgas, Bulgaria (10 screens) and the second in Constanta, Romania (8 screens). Both cinemas are the first and only multiplexes in those cities.

In July 2012, the Company opened its most spectacular cinema in Rishon LeZion, Israel. The new Yes Planet megaplex has 24 screens offering all types of viewing experience: 2D, 3D, VIP auditoriums, the Company's first IMAX theatre in Israel and the first 4DX screen in the EMEA region. In December 2012 the Company opened a new cinema in Ploesti, Romania (12 screens). This cinema is the first and only multiplex in the city.

At the end of March 2012, the Company closed an 8-screen cinema in Hostivar, Prague, as scheduled. This multiplex was part of the Palace Cinemas acquisition and was located close to another cinema that the Company continues to operate. In addition, at the beginning of September, the Company closed a 3-screen cinema in Bat-Yam, Israel, as scheduled. This multiplex was located close to the Company's new complex in Rishon LeZion.

Digital Projection

During the first six months of 2012, the Company completed converting all of its auditoriums into digital format. The Company is realizing a number of benefits both in terms of increased revenues and reduced costs. The Company is now able to offer the best viewing experience, including 3D format, in all its multiplexes on a maximum scale. The Company can now capture 3D ticket price premium on all its screens, which continues to support revenues and EBITDA. Digitalisation of all screens enables also more efficient programming of all auditoriums optimising results of movie exhibition in all markets. Full digitalisation translates also into a reduction of operating costs including mainly support from the film studios based on a "Virtual Print Fee" (VPF) formula, a reduction of payroll in projection rooms and savings in cinema advertising costs.

Film distribution activities

Revenues generated by the Company's distribution division increased by 14.5% from EUR 21.8 million in 2011 to EUR 24.9 million in 2012 and EBITDA from this segment went up from EUR 2.0 million in 2011 to EUR 4.8 million in 2012. The main reason for the increase in the EBITDA was the increasing number of independent movies that the Company distributed during 2012 compared to the previous year, Net performance of film distribution improved in all of the Company's territories during 2012 particularly in Poland.

In most of the Company's territories of operation Forum Film was the distributer of the most notable international titles during the fourth quarter of 2012, *The Hobbit: An Unexpected Journey* and *Skyfall*

With the launching of Forum Film Czech in March 2012, the Company is now active in film distribution in all its territories of operation. During the second quarter of 2012, the company completed its acquisition of the non-controlling interests in Norma Film Ltd. (Forum Film Israel). The non-controlling interests were acquired for EUR 1,755,000 from I.M Greidinger Ltd., an Israeli company owned by Messrs Moshe Greidinger and Israel Greidinger, both Managing Directors and (indirectly) shareholders of the company. As a result of the transaction, Norma Film Ltd. is now a fully owned subsidiary of the Company.

During the third quarter of 2012, The Walt Disney Company and the Company announced that as of October 1, 2012, Disney's Polish subsidiary, Disney Channels (Benelux) BV, would become the exclusive distributer of Disney film in Poland. The Company's subsidiary, Forum Film Poland, previously served in this role over the last 10 years. This agreement will not affect the other 4 territories in which the Company continues to serve as Disney's exclusive distributer. Given that Poland has rapidly grown into a major movie exhibition territory, this arrangement is consistent with Disney's strategy of maintaining its own distribution channels in the largest countries of operations. The new arrangement is not expected to have a material impact on the Company's results of operations or prospects.

Real Estate Operation

In 2012 real estate operations generated EUR 2.4 million revenue and EUR 1.2 million EBITDA mostly from rentals of space in the newly opened Yes Planet megaplex in Rishon Lezion, Israel as well as from part of the Polish owned cinemas where the Company is renting space to other tenants. The acquisition of Israel Theatres Real Estate BV, closed on 19 December 2012, did not have a material impact on the Company's results in 2012 except for the contribution from Ronson Europe NV, in the amount of EUR 1.4 million which was accounted as investments in associate.

On December 19, 2012, the Company signed and closed an agreement with Israel Theatres Real Estate Holding B.V. (a subsidiary of Israel Theatres Ltd.) to acquire all of the shares in Israel Theatres Real Estate BV ('ITRE'). ITRE is a holding company which owns all of the shares in real estate development companies holding the following assets: Mall of Rousse and other plots of land in Bulgaria, an office building in Herzliya and 5 other properties in Israel and plots of land designated to develop an amusement park in Poland. In addition, ITRE is the economic beneficiary of a 32.11%-stake in the WSE listed Ronson Europe NV through a jointly controlled general partnership formed under Dutch law between its subsidiary, ITR 2012 B.V. and ITR Dori B.V..The general partners jointly exercise the voting rights attached to 64.22% of the shares in Ronson Europe NV.

Bank Club Financing Agreement

Concurrently with the closing of the Transaction, the Company closed a new club bank financing agreement with three leading European banks, BZ WBK, HSBC and ING Bank, for a total EUR 210 million includes a EUR 70 million revolving credit line. During February 2013 an additional European leading bank, BNP Paribas, joined the new club bank financing group. The term of the facility is 6 years. The facility may be used in EUR and PLN and have been secured mainly by pledges of shares in the Company's main subsidiaries, investment certificates and mortgages on its major real estate assets. The credit agreement provides for standard covenants including those relating to a pre-determined level of leverage (net leverage covenant) and margin. It also includes a change of control clause in case the Greidinger family's holdings in the Company decrease below 30% or another investor obtains control over the Company.

The new club financing agreement is being used by the Company to finance the Transaction, to refinance all other Group credit facilities (including the debt of the acquired business) and for other general corporate purposes.

The only other group financing that remains in place following the new club financing is a local Israeli financing of approximately. EUR 40 million.

Overview of results

The Company's net income attributable to equity holders of the parent company for the year ended 31 December 2012 was EUR 24,779,000 and can be summarised as shown below. In connection with the Palace Cinemas acquisition in January 2011, the Company incurred acquisition related and reorganisation expenses, which costs had a material impact on the Company's EBITDA and net income for 2011. In order to show a clearer comparison of results without the disproportionate impact of these one-time expenses, the net results for 2011 are presented in two separate columns: one column showing the results excluding the acquisition-related and reorganisation expenses, and the other column showing the results including acquisition-related and reorganisation expenses. Cinema-related revenues contain theatre operations, film distribution and cinema-related real estate activities.

	For the year ended 31 December		
	2012	**2011** *(excluding acquisition & reorganisation expenses)*	**2011**
	EUR (thousands, except per share data)		
Total revenues	**280,653**	267,459	267,459
Operating costs, excluding depreciation and amortisation	**206,094**	200,246	200,246
Gross result	**74,559**	67,213	67,213
General and administrative expenses	**14,348**	13,789	13,789
Acquisition-related and reorganisation expenses	**-**	-	3,278
EBITDA*	**60,211**	53,424	50,146
Depreciation and amortisation	**30,555**	25,417	25,417
Operating profit	**29,656**	28,007	24,729
Financial income	**2,130**	634	634
Financial expenses	**(6,012)**	(4,074)	(4,074)
Loss on disposals and write-off of other investments	**(334)**	(201)	(201)
Share of profit of equity-accounted investees (net of tax)	**1,368**	-	-
Operating income before taxation	**26,808**	24,366	21,088
Income tax benefit/(expense)	**(1,778)**	286	286
Net income	**25,030**	24,652	21,374
Non-controlling interests	**(251)**	(449)	(449)
Net income attributable to equity holders of the parent company	**24,779**	24,203	20,925
Weighted average number of equivalent shares (basic)	**51,200,000**	51,200,000	51,200,000
Weighted average number of equivalent shares (diluted)	**51,223,390**	51,232,462	51,232,462
Net earnings per ordinary share (basic and diluted)	**0.48**	0.47	0.41

* Earnings before Interest, Taxation, Depreciation and Amortisation. Under this definition, gains and losses on disposals and write-offs of other assets as well as currency exchange results are also not included in EBITDA.

Revenues

Total revenues increased by 4.9% from EUR 267.5 million during the year ended 31 December 2011 to EUR 280.7 million during the year ended 31 December 2012.

Theatre operating revenues increased by 3.9% from EUR 243.8 million during the year ended 31 December 2011 to EUR 253.3 million during the year ended 31 December 2012. This increase is mainly due to two factors: (1) the increase in theatre admissions (2) the increase of the average ticket price in Euro and in local currencies in most of the Company's territories of operation. The 2012 revenue increase was partly offset mainly by the lack of admission in Poland and by the weakness of the Polish zloty (-1.5%), Hungarian forint (-3.6%) and Romanian lei (– 5.2%) against the Euro compared to the same period last year.

Distribution operating revenues increased by 14.5% from EUR 21.8 million during the year ended 31 December 2011 to EUR 24.9 million during the year ended 31 December 2012. The increase is mainly due to the variety of movies that the Company distributed , the two biggest international feature movies of the year: *The Hobbit: An Unexpected Journey* and *Skyfall* and independent movies distribution such titles as *The Hunger Games*, *The Artist*, *Hope Springs* and others.

Other revenues increased by 24.9% from EUR 1.9 million during the year ended 31 December 2011 to EUR 2.4 million during the year ended 31 December 2012. The main reason for the increase is the opening of the Yes Planet Rishon LeZion in Israel, where from beginning of Q3 2012 the Company started to realize rental revenues from the tenants leasing space at the complex.

Operating costs

Operating costs, excluding depreciation and amortisation, increased by 2.9% from EUR 200.2 million during the year ended 31 December 2011 to EUR 206.1 million during the year ended 31 December 2012. This net increase resulted primarily from the total effects ofan increase in theatre operating expenses primarily explained by the increase in the revenue generated from theatre operation as mentioned above. In addition, this increase was partly offset by the reorganisation of the Palace Cinemas in the Czech Republic, Hungary and Slovakia, the digitalisation process that the Company completed during the first half of 2012and a contribution of EUR 1.2 million which the Company received as a settlement for its claim under an insurance policy. The theatre operating expenses, excluding depreciation and amortisation, as a percentage of total theatre revenues decreased from 74.5% for the year ended 31 December 2011, to 73.8% for the year ended 31 December 2012.

General and administrative expenses

General and administrative expenses increased by 4.1% from EUR 13.8 million for the year ended 31 December 2011 to EUR 14.3 million during the year ended 31 December 2012. The increase in general and administrative expenses is due to the increase in the Company's business activities.

Acquisition-related and reorganisation expenses

The acquisition-related and reorganisation expenses during the financial year 2011 were related to the Palace Cinema acquisition in January 2011. These one-time expenses were associated primarily with legal, accounting and advisory fees to consummate the acquisition and the one-time reorganisation expenses incurred in conjunction with integrating the acquisition into the Company's existing platform.

EBITDA

As a result of the factors described above, excluding the acquisition-related and reorganisation expenses, the earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 12.7%, from EUR 53.4 million for the year ended 31 December 2011 to EUR 60.2 million for the year ended 31 December 2012. EBITDA including acquisition-related and reorganisation expenses, increased by 20.1% from EUR 50.1 million for the year ended 31 December 2011 to EUR 60.2 million for the year ended 31 December 2012.

Depreciation and amortisation

Depreciation and amortisation expenses increased by 20.2%, from EUR 25.4 million for the year ended 31 December 2011 to EUR 30.6 million for the year ended 31 December 2012. The increase is explained mainly by higher depreciation due to the newly opened theatres in 2012 and, new digital projectors acquired during 2011 and the first half of 2012

Operating profit

As a result of the factors described above, excluding the acquisition-related and reorganisation expenses, operating profit increased by 5.9% from EUR 28.0 million during the year ended 31 December 2011 to EUR 29.7 million during the year ended 31 December 2012. The operating profit including acquisition-related and reorganisation expenses increased by 19.9% from EUR 24.7 million for the year ended 31 December 2011 to EUR 29.7 million for the year ended 31 December 2012.

Financial income/expense

The balance of financial income resulted in a net expense of EUR 3.9 million during the year ended 31 December 2012 which is 12.8% higher than the net expense during the year ended 31 December 2011 (net expense EUR 3.4 million). The increase is mainly due to an increase in bank debt following the acquisition of new cinema equipment and building new cinemas.

Income tax

Income tax amounted to a net tax expense of EUR 1.8 million during the year ended 31 December 2012 compared to a net tax benefit of EUR 0.3 million during the year ended 31 December 2011. The tax benefit during the year ended 31 December 2011 is mainly due to the changes in deferred taxes in 2011 in Poland following the reorganization of a number of the Company's' Polish operational companies. As part of the reorganization process, the shares of the operational companies in Poland were transferred to a fund and, at a later stage, these companies were transformed into so-called joint stock partnership.

After the completion of the reorganization process describe above, the Company is continuing to exercise full control over the activities of the operational companies in Poland and still retain the same scope of rights to participate in their profits. The activities of the Polish operational companies continues to be fully consolidated with the activities of other subsidiaries of the Company group in the financial statements of the Company

Non-controlling interests

Non-controlling interests comprise the share of minority shareholders in profits and losses from subsidiaries that are not 100% owned by the Company and amounted to EUR 0.3 million (negative) for the year ended 31 December 2012 and EUR 0.4 million (negative) for the year ended 31 December 2011.

Net income

As a result of the factors described above, excluding the acquisition-related and reorganisation expenses, the Company's net income attributable to equity holders of the parent company increased by 2.4% from EUR 24.2 million during the year ended 31 December 2011 to EUR 24.8 million during the year ended 31 December 2012. The Company's net income attributable to equity holders of the parent company, including acquisition-related and reorganisation expenses, increased by 18.4% from EUR 20.9 million for the year ended 31 December 2011 to EUR 24.8 million for the year ended 31 December 2012.

Financial condition

Liquidity and capital resources

The Company funds its day-to-day operations principally from the cash flow provided by its operating activities. Such cash flow (not including changes in working capital) totalled EUR 54.5 million and EUR 45.9 million for the years ended 31 December 2012 and 2011, respectively.

The difference between the Company's net income and its cash flow from operating activities (excluding the changes in working capital) is principally due to the Company's depreciation and amortisation expenses of EUR 30.6 million and EUR 25.4 million in 2012 and 2011, respectively, which are non-cash expenses.

Capital expenditures

The Company maintains a dynamic and flexible approach to developing its theatre projects whereby it will generally seek to lease theatres rather than to purchase them. The Company, however, will consider owning a multiplex if strategically desirable.

The Company's capital expenditures (including investment in subsidiary companies and proceeds from investments sold) aggregated to a net investment of EUR 87.8 million and EUR 75.1 million during 2012 and 2011, respectively. The 2011 net investment includes the net cash consideration of the Palace Cinemas acquisition in the amount of EUR 18.4 million as well as EUR 10.1 million due to the Rishon LeZion construction in Israel. The 2012 net investment includes the net cash consideration of the purchased of ITRE , investments in new cinemas and investment in new distribution rights.

The Company's capital expenditures (excluding the effect of the Palace Cinemas acquisition in 2011 and excluding the acquisition of real estate in 2012) aggregated to a net investment of EUR 67.7 million and EUR 58.5 million during 2012 and 2011, respectively.

Cash flows from financing activities

The Company's net cash flow from financing activities for the year ended 31 December 2012 amounted to EUR 42.3 million, which compares to a net cash flow during the year ended 31 December 2011 of EUR 33.0 million.

The cash inflow in respect of financing activities for the year ended 31 December 2012 was mostly explained by the proceeds from new long-term loans assumed (EUR 148.2 million), and only partly offset by repayments of long-term loans (EUR 87.0 million), the net decrease in short-term bank credits (EUR 14.1 million) and the net cash used in the acquisition of non-controlling interests (EUR 1.8 million; see Note 7 for further details) and increase in short term bank deposit (EUR 2.7 million) . The cash inflow in respect of financing activities for the year ended 31 December 2011 was mostly explained by the proceeds from new long-term loans assumed (EUR 41.5 million) and the net increase in short-term bank credit (EUR 11.4 million) mainly in connection with the Palace Cinemas acquisition and due to the financing of the Company's increasing business activities comprising mainly of the digitalisation of its entire cinema chain and the construction of its Rishon LeZion project. The cash inflows were only partly offset by the repayment of long-term loans (EUR 18.6 million) and a decrease in long-term payables (EUR 1.4 million).

Asset and capital structure

The Company and its subsidiaries financed the majority of their development to date through local bank loan in Israel and local bank loans in Central Europe, mainly in Poland. These loans financed a growing part of the subsidiaries' projects, against which security had been provided such as mortgages on the assets of the financed projects, a pledge of the shares in local subsidiaries and assignments of the local subsidiaries revenues and insurance policies. On December 19, 2012 the local bank loans in Central Europe were refinanced under the new club bank financing agreement.

Debt and operational debt

As of 31 December 2012, the Company's total debt to its banks amounted to EUR 226.8 million (31 December 2011: EUR 66.8 million). Taking into account the Company's available cash position at 31 December 2012 amounting to EUR 26.7 million (31 December 2011: EUR 9.3 million), the net debt position of the Company amounted to EUR 200.2 million at the end of 2012 (end of 2011: EUR 57.5 million). Out of this net debt, EUR 30.6 million has been used to finance non-operational assets. The Company's non-operational assets mainly consist of real estate projects.

	31 December 2012	**31 December 2011**
	EUR (thousands)	
Bank debt:		
Long-term borrowings, including current portion	**223,194**	49,548
Short-term bank credit	**3,625**	17,277
Total debt	**226,819**	66,825
Cash and cash equivalents	**(26,666)**	(9,277)
Net debt	**200,153**	57,548
Lands	**(24,101)**	-
Construction in progress	**(6,047)**	(23,046)
Cinema equipment not yet operated	**(426)**	(134)
Net debt financing assets in operation	**169,579**	34,368
Total equity attributable to equity holders of the Company	**257,674**	229,303
Total capital employed	**427,253**	263,671

Gearing ratio and leverage

The gearing ratio is calculated as net debt divided by total equity attributable to equity holders of the Company. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Leverage is calculated as net debt divided by total capital employed. Total capital employed is calculated as 'equity attributable to equity holders of the Company' as shown in the consolidated statement of financial position plus net debt financing assets in operation.

The Company's debt and leverage increased significantly at the end of 2012, primarily as a result of the Acquisition of the real estate from Israel Theatres Real Estate Holding BV which closed in December 2012 and which added EUR 110 million of debt.

Employees

The average number of personnel employed by the Company and its subsidiaries – on a fulltime equivalent basis – increased from 3,094 in 2011 to 3,171 in 2012. The increase is attributable to an increase of personnel as a result of the new cinemas that were opened during the year.

Due to the fact that most employees including the Management Board, and Supervisory Board are remunerated outside the Netherlands, the crisis levy is therefore not applicable.

Research and development

The Company and its subsidiaries are not involved in any research and development activities.

Subsequent events

None

Outlook for the year 2013*

In 2013 we are expecting a promising line-up of international films with two parts of the Hobbit movie, in the first and fourth quarter, subsequent instalments of successful series like: *Hangover 3, Hunger Games 2, Die Hard 5, Independence Day 2,* new animation stories like *Planes, Frozen, Monsters University, Epic, The Croods* and many new standalone titles. The Polish domestic film production appears to be much more eventful topped by *the Wałęsa* movie followed by many other stories like: *Bejbi Blues, Sęp, Drogówka, Syberiada Polska, Last Minute, Być jak Kazimierz Deyna, Dzień Kobiet, Ambassada, W imię …, Powstanie '44…* and others. The Company also believes that the lack of big sport events in 2013, like Olympic Games and football championships, should have some positive impact on its theatre operations in compare to 2012.

The Company has binding lease agreements to open 340 new screens in the coming years. The relatively low density of screens in the markets in which the Company operates offers significant long-term potential for continued expansion. However, the on-going weakness in the Central European real estate market, especially for shopping mall development projects, is causing delays in a number of theatre openings. Management believes that this weakness will continue in 2013 and as a result, this year will not be a strong year for new cinemas, with growth resuming in 2014. In 2013, the Company expects to add 30 to 40 screens to its theatre chain. The first opening for 2013 is scheduled in March, when the Company plans to open its second multiplex in Sofia, Bulgaria, in the Paradise Shopping Mall. This cinema will have 14 screens and will offer both 3D and 4DX projection. Additional screens are slated to open closer to the end of the year, but it is still too early to identify specific sites and dates.

In addition to opening new cinemas, the Company will continue deploying the 4DX system in its leading multiplexes across the CEE region. Such openings will include screens in Warsaw, Budapest and Prague, which are all expected to debut before the middle of the year.

The Company continues signing lease agreements for selected locations. Recently the Company signed two new lease agreements in Israel, in Zichron Ya'akov (11 screens) and Beer Sheva (18 screens), where Cinema City signed leased agreements in past quarters. These cinemas should open in 2014/2015. The Company has also started works for its new own real estate cinema development in Israel, in Jerusalem. The new megaplex is being developed on the plot, leased by the Company and it is planned to open in 2015.

The Company believes that operating and financial results in 2013 will be positively impacted by the cinemas opened in 2012 especially by Yes Planet in Rishon Lezion, Israel offering 24 screens with IMAX and 4DX auditoriums. Other cinemas opened in Romania, Bulgaria and Czech Republic will also contribute to Cinema City's overall results. In 2013 Cinema City should benefit more from revenue based on *virtual print fee* formula, what should allow to reduce operating costs of the Company.

The acquisition of real estate from Israel Theatres Real Estate Holding BV closed in December 2012 has added an amount of debt of EUR 110 million, which will generate additional interest cost in 2013. However, some of the purchased assets will contribute revenue and earnings to the Company As to particular assets, the Company's view for 2013 is as follows**: 1) Bulgaria:** Mall of Rousse, a shopping mall in operation, which is currently approximately 55% leased, should increase its rented space. In February the Company signed an agreement with New Yorker to open a shop of 800 sqm and it continues negotiations with other key tenants. The other 2 plots in Bulgaria remain undeveloped and they are for sale when the real estate market in Bulgaria rebounds. 2) **Israel:** The office building in Herzliya, Israel is generated stable income while half of the building is used by the Company. In addition, the Company may decide to sell certain of the real estate properties purchased in the acquisition if opportunities appear. 3) **Poland**: As for the Park of Poland the Company is analyzing various plans for the next phase. As for Ronson Europe NV, the Company believe that it should have a positive year with good potential of apartments to be sold and transferred to ultimate owners during the year.

While the Company continues analysing entries to new geographies, mostly through potential acquisitions in Western and Northern Europe, development of the Company cinema chain remains the priority for management of Cinema City.

The Company's management continues to closely monitor the unfolding debt and Euro crisis in the Eurozone, its potential implications on the Company's countries of operations, and general economic and industry trends both locally and around the world. The Company continues to have binding commitments for an additional 31 sites (representing approximately 340 screens) However, because the mall opening dates are dependent on the mall developers and there is a continuing tendency in the Company's market to complete mall construction behind schedule, it remains difficult for the Company to accurately estimate the opening dates of its projects. This issue has been particularly exacerbated by the ongoing regional slowdown in real estate development brought on by the past three years' worldwide financial and real estate crisis, during which period some of the Company's real estate projects were having difficulties in securing financing necessary to commence construction.

However, the Company still believes that the planned opening of many of the multiplexes for which it has signed lease contracts will take place. As the Company, in most cases, does not begin to expend capital for theatre constructions in its new theatres until very close to the scheduled opening date, the failure to complete any particular mall project or even a number of projects, should not have a material negative impact on the Company's ongoing operations and results, since such failure would not pose a significant financial risk to the Company. If the completion of mall projects is either delayed or cancelled, this would only impact the rate of the Company's future growth and not its ongoing operations.

* Certain statements contained in this annual report are not historical facts but rather statements of future. These forward-looking statements are based on our current plans, expectations and projections about future events. Any forward-looking statements speak only as of the date they are made and are subject to uncertainties, assumptions and risks that may cause the events to differ materially from those anticipated in any forward-looking statement. Such forward-looking statements include, without limitation, improvements in process and operations, new business opportunities, performance against Company's targets, new projects, future markets for the Company's products and other trend projections. For the avoidance of any doubts, this annual report does not contain any forecast about the Company's and its capital group's financial results.

Additional information to the report

Major shareholders

To the best of the Company's knowledge and in accordance with official notifications received by the Company as of the date of publication of the annual report for the year ended 31 December 2012 (14 March 2013), the following shareholders are entitled to exercise over 5% of voting rights at the General Meeting of Shareholders in the Company:

	As of 14 March 2013 Number of shares/ % of shares (1)	Increase/ (decrease) Number of shares	As of 31 December 2012 Number of shares/ % of shares(1)	Increase/ (decrease) Number of shares	As of 31 December 2011 Number of shares/ % of shares
I.T. International Theatres Ltd.	27,589,996 / 53.89%	-	27,589,996 / 53.89%	-	27,589,996 / 53.89%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	5,004,326 / 9.77%	-	5,004,326 / 9.77%	-	5,004,326 / 9.77%
Aviva Investors Poland SA	na	-	2,475,805 / 4.84%	- 522,674	2,998,479 / 5.86%
ING Powszechne Towarzystwo Emerytalne SA	2,680,095 / 5.23%	-	2,680,095 / 5.23%		2,680,095 / 5.23%
BZ WBK TFI SA *	na	-	2,013,832 / 3.93%	- 647,217	2,661,049 / 5.20%

* Source: AFM Register Substantiële Deelnemingen (AFM Register of substantial interests)

In the register of major holdings maintained by the Dutch Authority for the Financial Markets the following major holdings are disclosed:

- DKG Investment Ltd.: 40.05% (share in capital and voting rights).This concerns a holding company through which the shares in I.T. International Theatres Ltd. owned by two members of the Management Board (see below) are jointly held
- ING Open Pension Fund: 5.23%.

Changes in ownership of shares and rights to shares by Supervisory Board members during 2012 and until the date of publication of the report

The members of the Supervisory Board did not own any shares and/or rights to shares in the Company during the period 31 December 2011 until 14 March 2013.

Changes in ownership of shares and rights to shares by Management Board members during 2012 and until the date of publication of the report

Changes in ownership of shares and rights to shares by Management Board members are specified below:

	As of 14 March 2013 Number of shares/ % of shares	Increase/ (decrease) Number of shares	As of 31 December 2012 Number of shares/ % of shares	Increase/ (decrease) Number of shares	As of 31 December 2011 Number of shares/ % of shares
Moshe Greidinger*	11,264,599/ 22.00%	-	11,264,599/ 22.00%	+11,571	11,253,028/ 21.98%
Amos Weltsch	None	-	None	-	None
Israel Greidinger*	11,264,599/ 22.00%	-	11,264,599/ 22.00%	+11,571	11,253,028/ 21.98%

* The shares held by Messrs Moshe and Israel Greidinger are held indirectly through I.T. International Theatres Ltd.

Additional information to the report (cont'd)

Right to shares
The members of the Management Board did not own or receive any rights to shares in the Company during the period 31 December 2011 until 14 March 2013 with the exception of Mr Weltsch. In April 2012, Mr Weltsch was granted as a part of his remuneration package, 650,000 share options, each entitling him to subscribe for one share in the Company at the issue price of PLN 29 per share. The granting of these options was approved by the Annual General Meeting of the Company held on 21 June 2012. For further details including vesting dates and other conditions, reference is made to Note 18 to the Consolidated Financial Statements.

Changes in the composition of the Supervisory Board
None.

Capital structure, restrictions regarding shareholder rights and issue of new shares in the Company
The share capital of the Company consists of ordinary shares only, whereby one share represents one vote. There are no restrictions in respect of exercising rights attached to the shares by any shareholder.
The Company can only issue shares pursuant to a resolution of the General Meeting of Shareholders for a fixed number of shares and for a fixed period not exceeding 5 years. Such decision can only be taken upon a proposal by the Management Board subject to approval by the Supervisory Board.

Statement relating to the system of internal control
In line with best practice provision II.1.4 of the Dutch Code and bearing in mind the recommendations of the Monitoring Committee Corporate Governance Code, the Company issues a declaration about the effectiveness of the system of internal control of the processes on which the financial reporting is based.

In 2012, the Management Board assessed the effectiveness of the system of internal controls for financial reporting. During the investigation on which this assessment was based together with the assessment of the Company internal auditor, no shortcomings were identified that might possibly have a material impact on the financial reporting. On the basis of the results of the above assessment and the risk analyses that were carried out at the Company within the framework of governance and compliance, the Management Board is of the opinion – after consulting with the Audit Committee and with the approval of the Supervisory Board – that the system of internal controls provides a reasonable degree of certainty that the financial reporting contains no inaccuracies of material importance. An inherent element in how people and organisations work together in a dynamic world is that systems of internal control cannot provide an absolute degree (though they can provide a reasonable degree) of certainty as regards the prevention of material inaccuracies in the financial reporting and the prevention of losses and fraud.

In our view the system of internal controls, focused on the financial reporting, functioned effectively over the past year. There are no indications that the system of internal controls will not function effectively in 2013.

Representation concerning financial statements and report of the Management Board
The Management Board confirms that, to the best of its knowledge, the Consolidated Financial Statements, together with the comparative figures, have been prepared in accordance with applicable IFRS. The Consolidated Financial Statements, together with the stand-alone Company Financial Statements give a true and fair view of the state of affairs of the Group at 31 December 2012 and of the net result for the year then ended.
The Management Board report in this annual report gives a true and fair view of the situation on the reporting date and of developments during the financial year, and includes a description of the major risks and uncertainties.

Additional information to the report (cont'd)

Representation concerning election of the Company's auditor
The Company's auditor has been elected according to applicable rules. The audit firm and its chartered accountants engaged in the audit of the financial statements of Cinema City International N.V. meet the objectives to present an objective and independent report.

Other

As of 31 December 2012, the Group has no litigations for claims or liabilities that in total exceed 10% of the Group's equity.

The following net movements in the Group's main provisions took place during the year ended 31 December 2012:

- an increase in the provision for deferred tax liabilities of EUR 1,296,000;
- an increase in the provision for accrued employee retirement rights of EUR 212,000.

Rotterdam, 14 March 2013

The Management Board

Moshe Greidinger	Amos Weltsch	Israel Greidinger

Consolidated Statement of Financial Position

	Note	31 December 2012	2011
		EUR (thousands)	
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	*8*	**18,361**	13,159
Property and equipment	*9*	**341,289**	263,917
Investment property	*10*	**80,731**	-
Investment in an associate	*11*	**35,969**	-
Deferred tax asset	*32*	**2,964**	2,100
Long-term receivable from related parties	*15*	**-**	15,142
Other long term Receivables		**3,022**	-
Total non-current assets		**482,336**	294,318
CURRENT ASSETS			
Inventories	*12*	**4,544**	6,652
Receivables			
Trade accounts receivable	*13*	**20,075**	14,758
Receivable from related parties		**-**	1,040
Income taxes receivable		**335**	604
Other accounts receivable and prepaid expenses	*14*	**8,379**	12,585
Financial assets			
Foreign currency exchange contracts		**-**	644
Marketable securities		**7**	24
Cash and short-term deposits			
Cash and cash equivalents	*16*	**26,666**	9,277
Short-term bank deposits - collateralised	*17*	**3,083**	340
Total current assets		**63,089**	45,924
TOTAL ASSETS		**545,425**	340,242

The notes on pages 48 to 110 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Note	31 December 2012	2011
		EUR (thousands)	
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	*18*		
Share capital		**512**	512
Share premium reserve		**92,144**	92,144
Accumulated currency translation adjustments		**(3,994)**	(11,272)
Hedge reserve		**-**	451
Retained earnings		**169,012**	147,468
Total equity attributable to equity holders of the Company		**257,674**	229,303
Non-controlling interests	*20*	**1,356**	(2,071)
Total equity		**259,030**	227,232
LONG-TERM LIABILITIES			
Long-term loans, net of current portion	*22*	**204,077**	36,494
Accrued employee retirement rights, net	*21*	**1,061**	849
Deferred tax liabilities	*32*	**4,687**	3,391
Financial lease	*26(1)f*	**928**	1,080
Other long-term liabilities	*25*	**1,178**	179
Total long-term liabilities		**211,931**	41,993
CURRENT LIABILITIES			
Short-term borrowings	*23*	**22,742**	30,331
Trade accounts payable		**19,070**	17,414
Payable to related parties		**-**	210
Employee and payroll accruals		**2,631**	2,401
Other accounts payable	*24*	**28,665**	18,281
Income tax payables		**1,356**	2,380
Total current liabilities		**74,464**	71,017
Total liabilities		**286,395**	113,010
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**545,425**	340,242

The notes on pages 48 to 110 are an integral part of these consolidated financial statements.

Consolidated Income Statement

	Note	For the year ended 31 December 2012	2011
		EUR (thousands)	
Total revenues	*27*	**280,653**	267,459
Total operating costs	*28*	**236,649**	225,663
Total gross margin		**44,004**	41,796
General and administrative expenses	*29*	**14,348**	13,789
Acquisition-related and reorganisation expenses		**-**	3,278
Operating profit		**29,656**	24,729
Financial income	*30*	**2,130**	634
Financial expenses	*30*	**(6,012)**	(4,074)
Net finance expenses		**(3,882)**	(3,440)
Loss on disposals, and write-off of other investments	*31*	**(334)**	(201)
Share of profit of equity-accounted investees (net of tax)	*11*	**1,368**	-
Operating income before taxation		**26,808**	21,088
Income tax (expense)/benefit	*32*	**(1,778)**	286
Net income		**25,030**	21,374
Attributable to:			
Equity holders of the Company		**24,779**	20,925
Non-controlling interests	*20*	**251**	449
Net income		**25,030**	21,374
Earnings per share			
Weighted average number of shares	*19*	**51,200,000**	51,200,000
Weighted average number of shares (diluted)	*19*	**51,223,390**	51,232,462
Net earnings per share for profit attributable to the Equity holders of the Company (basic and diluted)		**0.48**	0.41

The notes on pages 48 to 110 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	For the year ended 31 December 2012	2011
		EUR (thousands)	
Net income for the year		**25,030**	21,374
Other comprehensive income			
Foreign exchange translation differences	*32(IV)*	**7,179**	(13,540)
Effective portion in fair value of cash flow hedges, net of tax*	*32IV)*	**(451)**	378
Other comprehensive income, net of tax		**6,728**	(13,162)
otal comprehensive income for the year		**31,758**	8,212
Attributable to:			
Equity holders of the Company		**31,606**	7,557
Non-controlling interests		**152**	655
Total comprehensive income for the year		**31,758**	8,212

* Represents changes in fair value adjustment of cash flow hedges related to part of the Company's future transactions denominated in currencies other than the functional currency.

The notes on pages 48 to 110 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

	Attributable to equity holders of the Company							
	Share capital	Share premium	Translation reserve	Hedge reserve	Retained earnings	Total	Non-controlling interests	Total equity
	EUR (thousands)							
Balance as of 1 January 2011	512	92,144	2,474	73	126,527	221,730	(4,957)	216,773
Share-based payments under the stock option plan (see Note 18 (d))	-	-	-	-	16	16	-	16
Net income for the year 2011	-	-	-	-	20,925	20,925	449	21,374
Foreign currency translation adjustment	-	-	(13,746)	-	-	(13,746)	206	(13,540)
Effective portion of changes in fair value of cash flow hedges, net of tax*	-	-	-	378	-	378	-	378
Classification of minority shareholders' loan to non-controlling interests	-	-	-	-	-	-	2,231	2,231
Balance as of 31 December 2011	512	92,144	(11,272)	451	147,468	229,303	(2,071)	227,232
Share-based payments under the stock option plan	**-**	**-**	**-**	**-**	**489**	**489**	**-**	**489**
Net income for the year 2012	**-**	**-**	**-**	**-**	**24,779**	**24,779**	**251**	**25,030**
Foreign currency translation adjustment	**-**	**-**	**7,278**	**-**	**-**	**7,278**	**(99)**	**7,179**
Effective portion of changes in fair value of cash flow hedges, net of tax*	**-**	**-**	**-**	**(451)**	**-**	**(451)**	**-**	**(451)**
Acquisition of non-controlling interests (see Note 7)	**-**	**-**	**-**	**-**	**(3,724)**	**(3,724)**	**1,919**	**(1,805)**
Acquisition of subsidiary with non-controlling interests (see Note 20)	**-**	**-**	**-**	**-**	**-**	**-**	**1,356**	**1,356**
Balance as of 31 December 2012	**512**	**92,144**	**(3,994)**	**-**	**169,012**	**257,674**	**1,356**	**259,030**

* Represents changes in fair value adjustment of cash flow hedges related to part of the Company's future transactions denominated in currencies other than the functional currency (see Note 34).

The notes on pages 48 to 110 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	For the year ended 31 December 2012	2011
		EUR (thousands)	
Cash flows from operating activities			
Net income		**25,030**	21,374
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	*28*	**30,555**	25,417
Increase in accrued employee rights upon retirement, net	*21*	**208**	144
Share of profit of equity-accounted investees (net of tax)		**(1,368)**	-
Loss from disposal of fixed assets		**317**	201
Income tax paid		**(2,056)**	(951)
tax expenses (benefit)		**1,778**	(286)
Operating income before working capital		**54,464**	45,899
Decrease/ (increase) in inventories		**2,388**	(2,156)
Increase in trade accounts receivable		**(4,306)**	(1,045)
Decrease/ (increase) in prepaid expenses and other receivables		**1,643**	(540)
Decrease/ (increase) in receivable from governmental institutions		**1,323**	(1,051)
Decrease in long-term film distribution costs and deferred expenses		**119**	1,373
Increase/(decrease) in accounts payable and other payables		**5,069**	(95)
Increase in interest payables		**870**	-
Increase in employee and payroll accruals		**174**	86
Increase/ (decrease) in payables to related parties		**205**	(590)
Increase in receivables from related parties		**(209)**	(305)
Share-based payments	*18 (d)*	**489**	16
Net cash from operating activities		**62,229**	41,592
Cash flows used in investing activities			
Acquisition of subsidiaries and associates, net of cash acquired (in 2012 – from related party)	*33*	**(17,641)**	(18,426)
Purchase of property and equipment *		**(61,873)**	(52,791)
Investment in intangible assets	*8*	**(8,344)**	(4,065)
Proceeds from disposition of property and equipment and intangible assets		**97**	117
Short-term bank deposits –collateralised		**-**	(14)
Changes in marketable securities		**17**	109
Net cash used in investing activities		**(87,744)**	(75,070)

* Taking into account movements in investment creditors.

The notes on pages 48 to 110 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	For the year ended 31 December 2012	2011
		EUR (thousands)	
Cash flows from financing activities			
Proceeds from long-term loans		**148,193**	41,531
Repayment of long-term loans		**(87,026)**	(18,556)
Decrease in long-term payables		**(290)**	(1,390)
Acquisition of non-controlling interest		**(1,805)**	-
Short-term bank deposits –collateralised		**(2,670)**	-
Short-term bank credit, net (decrease)/ increase		**(14,053)**	11,368
Net cash from financing activities		**42,349**	32,953
Foreign currency exchange differences on cash and cash equivalents		**555**	(725)
Increase/ (decrease) in cash and cash equivalents		**17,389**	(1,250)
Cash and cash equivalents at beginning of year		**9,277**	10,527
Cash and cash equivalents at end of year	*16*	**26,666**	9,277

The notes on pages 48 to 110 are an integral part of these consolidated financial statements.

Note 1 - General and principal activities

Cinema City International N.V. (‘the Company’ or ‘Cinema City’) is incorporated in Amsterdam, the Netherlands. The address of the Company is Weena 210-212, 3012 NJ Rotterdam, the Netherlands. The accompanying Consolidated Financial Statements present the financial position, results of operations, changes in shareholders’ equity and cash flows of the Company including its subsidiaries and joint ventures (together referred to as ‘the Group’) and the Group’s interest in associates.
The shares of the Company are traded on the Warsaw Stock Exchange. As at 31 December 2012, 53.89% of the outstanding shares are held by I.T. International Theatres Ltd. (‘ITIT’), incorporated in Israel (31 December 2011: 53.89%).
The Group is principally engaged in the operation of entertainment activities in various countries including Poland, Hungary, the Czech Republic, Bulgaria, Romania, Slovakia and Israel. The Company is also engaged in managing and establishing its own entertainment real estate projects for rental purposes, in which the Company operates motion picture theatres. The Company’s business is in large dependent both upon the availability of suitable motion pictures from third parties for exhibition in its theatres, and the performance of such films in the Company’s markets.

The Annual Report 2012, including the Consolidated Financial Statements of the Group for the year ended 31 December 2012, is available upon request at the Company’s registered office, Weena 210-212, 3012 NJ Rotterdam, the Netherlands, or at the Company’s website: www.cinemacity.nl.

Note 2 - Basis of preparation

A. Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (‘IFRS’) as adopted by the European Union as well as in accordance with article 362.9 of the Netherlands Civil Code. The Company has adopted the standards and interpretations with an effective date before 31 December 2012.
These Consolidated Financial statements have been prepared on the assumption that the Group is a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of its operations.

The financial statements were authorised for issue by the Supervisory Board on 12 March 2013.
The accounting policies set out below have been applied consistently for all periods presented in these Consolidated Financial Statements and by all group entities.

B. Basis of measurement

The financial statements are presented in euros, rounded to the nearest thousand. They are prepared on the historical cost basis except for derivatives, marketable securities, investment property and share-based payments that are measured at fair value.

Note 2 - Basis of preparation (cont'd)

C. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions. These judgements, estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The following accounting policies are particularly sensitive to management estimates:

- Marketable securities
- Accounting for real estate transactions.
- Related parties' transactions and disclosures.
- Goodwill impairment analysis
- Share Base Payment valuation
- Recoverability of deferred tax assets

D. Principles of consolidation

The Consolidated Financial Statements include the accounts of the Company, its subsidiaries, and jointly controlled entities.

Subsidiaries are those enterprises which are controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases.

Jointly controlled entities are those enterprises over whose activities the Company has joint control, established by contractual agreements. The Consolidated Financial Statements include the Company's proportionate share of the enterprises' assets, liabilities, revenues and expenses with items of similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

All inter-company accounts and transactions are eliminated when preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate and joint ventures. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

A list of the companies whose financial statements are included in the Consolidated Financial Statements and the extent of ownership and control appears in Note 39 to these financial statements.

E. Foreign currency translation

(a) Functional and presentation currency

The functional currencies of the operations in Central Europe are the relevant local currencies: the Bulgarian leva, the Czech crown, the Hungarian forint, the Polish zloty and the Romanian new lei. The functional currency of the operations in Israel is the New Israeli shekel. The functional currency for the Dutch, Cypriot and Slovakian operations is the euro. The company presents its consolidated financial report in the Euro since its operation is in the Euro zone where the Euro consider to be the main currency.

Note 2 - Basis of preparation (cont'd)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Income Statement within 'finance income or expense', except when deferred in other comprehensive income as qualifying cash flow hedges.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into euros (presentation currency) as follows:

- assets and liabilities, both monetary and non-monetary, are translated at the closing exchange rate at the date of that balance sheet;
- income statement items are translated at the prevailing transaction rates; and
- all resulting exchange differences are recognised in other comprehensive income.

F. Exchange rates

Information relating to the relevant euro exchange rates (at year-end and averages for the year):

	Exchange rate of euro					
As of	**Czech crown (CZK)**	**Hungarian forint (HUF)**	**Polish zloty (PLN)**	**US dollar (USD)**	**Israeli shekel (NIS)**	**Romania new lei (RON)**
31 December 2012	**25.11**	**290.85**	**4.08**	**1.32**	**4.92**	**4.44**
31 December 2011	25.70	312.03	4.43	1.29	4.94	4.32
Change year over year	**%**	**%**	**%**	**%**	**%**	**%**
2012 (12 months)	(2.30)	(6.79)	(7.90)	2.32	(0.40)	2.78
2011 (12 months)	1.62	11.43	11.59	(3.01)	4.22	0.47

	Exchange rate of euro					
Average for the period	**Czech crown (CZK)**	**Hungarian forint (HUF)**	**Polish zloty (PLN)**	**US dollar (USD)**	**Israeli shekel (NIS)**	**Romania new lei (RON)**
2012 (12 months)	**25.14**	**289.31**	**4.18**	**1.29**	**4.95**	**4.46**
2011 (12 months)	24.58	279.22	4.12	1.39	4.98	4.24
Change year over year	**%**	**%**	**%**	**%**	**%**	**%**
2012 (12 months)	2.28	3.61	1.46	(7.19)	(0.60)	5.19
2011 (12 months)	(2.92)	1.19	3.00	4.51	0.61	0.47

Since the exchange rate of the Bulgarian leva versus the euro for the applicable periods is unchanged, a currency table is not added. The exchange rate for the applicable periods used is 1.95583 Bulgarian leva for one euro.

Note 2 - Basis of preparation (cont'd)

G. Language

The general shareholders meeting has decided to use the English and not Dutch language in the financial statements in accordance with art. 2:362 lid 7 jo. 2:391 lid 1 BW.

Note 3 - Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows.

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2012 insofar as endorsed by the EU as of the date of approval of these financial statements:

- Amendment to IAS 12 *Income Taxes – Recovery of Underlying Assets*. The amendment clarifies the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale.
- Amendment to IFRS 7 *Financial Instruments – Disclosures: Transfer of Financial Assets* – effective for financial years beginning on or after 1 July 2011.
- Amendments to IFRS 1 *First–time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First–time Adopters* – effective for financial years beginning on or after 1 July 2011.

The adoption of these amendments did not have impact on the financial position or performance of the Group.

Note 4 - Summary of significant accounting policies

A. Investment in an associate

Associates are entities where the Group has significant influence over financial and operating policies. This is presumed to exist when the Group hold 20% to 50% of the voting power of an entity.

Investment in an associate comprises non-controlling interests held by the Group and is accounted for using the equity method.

B. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in acquisition related and other reorganization costs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest is remeasured to fair value at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The level of testing goodwill for impairment is not larger than operating segment

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

C. Share capital

Incremental costs directly attributable to the issue or buying back of ordinary shares and to the issue of share options are recognised as a deduction, net of any tax effects, from equity through the share premium reserve.

Note 4 - Summary of significant accounting policies (cont'd)

D. Intangible assets – excluding goodwill

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation, calculated over the estimated useful life of the assets, and after impairment losses, if any. The carrying amount of the intangible assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated as the higher of fair value less cost to sell and value in use. Amortisation methods, useful lives and residual values are reviewed at each reporting date.

Costs incurred in relation of the purchase of software are treated as intangible assets and are usually amortised over period between three to five years.

Costs incurred in relation of the purchase of distribution rights are treated as intangible assets and are usually amortised over a period of three years.

E. Property and equipment

(1) Property and equipment are stated at cost less accumulated depreciation and impairment losses. Expenditures for maintenance and repairs are charged to expenses as incurred, while renewals and improvements of a permanent nature are capitalised.

(2) Depreciation is calculated by means of the straight-line method over the estimated useful lives of the assets. Annual rates of depreciation are as follows:

	%
Buildings	2 - 3
Cinema equipment	Mainly 10
Leasehold improvements	Mainly 5
Computers, furniture and office equipment	6 - 33
Vehicles	15 - 20
Video movie cassettes and DVDs	50
Video machines	20

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(3) Leasehold improvements are depreciated over the estimated useful lives of the assets, or over the period of the lease, including certain renewal periods, if shorter.

(4) Constructions in progress contain cinemas that are under development. Those projects are recognized at cost and are not depreciate until the cinema is starting to operate.

(5) Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation.

(6) The carrying amount of assets mentioned above is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated as the higher of fair value less cost to sell and value in use.

(7) Financing expenses relating to short-term and long-term loans, which were taken for the purpose of purchasing or constructing property and equipment, as well as other costs which refer to the purchasing or constructing of property and equipment, are capitalised to property and equipment.

Note 4 - Summary of significant accounting policies (cont'd)

F. Investment properties

Investment property comprises completed property and property under construction or re-development that is held to earn rentals or for capital appreciation or both.

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the income statement in the year in which they arise. For the purposes of these financial statements, in order to avoid double accounting, the assessed fair value is:

- Reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments.
- Increased by the carrying amount of any liability to the superior leaseholder or freeholder that has been recognised in the balance sheet as a finance lease obligation.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the income statement in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

G. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses of continuing operations, are recognised in the income statement in expense categories consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGUs recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Note 4 - Summary of significant accounting policies (cont'd)

The following assets have specific characteristics for impairment testing:
Goodwill – Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.
Other intangible assets – Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

H. Inventories

Inventories are valued at the lower of cost or net realisable value, and include concession products, spare parts, music cassettes, CDs and video cassettes. Cost is determined by means of the 'first in, first out' method.. Net realisable value is the estimated selling price during the normal course of business, less the estimated costs of completion and variable selling expenses.

I. Financial assets

The Group classifies its financial assets in the following categories: marketable securities (at fair value through profit or loss), loans and receivables, financial assets at fair value through profit and loss and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Marketable securities

The investments in securities held by the Group are classified as trading securities and presented at fair value through profit and loss. Trading securities are bought and held principally for the purpose of selling them in the short term and are recorded at fair value. The fair value of investments held for trading is their quoted bid price as of the reporting date. Unrealised gains and losses on these securities are included in the income statement. Dividend income is recognised when distribution of dividend is announced.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially recognised at fair value, but subsequently at amortised cost. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables in these consolidated financial statements comprise current receivables.

(c) Available for sale financial assets

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.
These investments are valued at fair value or cost less impairment losses if the fair value cannot be measured reliably. The carrying amount of the available for sale financial assets is reviewed at each reporting date to determine whether there is any indication of impairment.

(d) Financial assets at fair value through profit or loss

This includes derivatives except from those derivatives that are effective hedging instruments. See 'Derivative financial instruments' under K.

Note 4 - Summary of significant accounting policies (cont'd)

J. Allowance for doubtful accounts

The allowance for doubtful accounts is determined based upon management's evaluation of receivables doubtful for collection on a case-by-case basis.

K. Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange rate risks arising from operational and financing activities.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The fair value of foreign contracts is based on the relevant current exchange rates at the reporting date. The change in the fair value of contracts that are effective hedges is booked in other comprehensive income and accumulated into equity in a separate hedge reserve. The Company designates these contracts to hedge future cash flow fluctuations deriving from differences between the euro and the US dollar against local currencies. Amounts are released from the hedge reserve to profit or loss when the future transaction is settled.

Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss due to the change in the fair value of the hedging instrument is recognised in the income statement.

L. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term highly liquid investments, that are readily convertible to known amounts of cash, and which are subject to insignificant risks of changes in value. Cash and cash equivalents are stated at fair value.

M. Employee benefits – defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

N. Employee benefits – severance pay

In certain countries in which the Group operates, employees are entitled to severance pay at the end of their employment. The Group's liability for these severance payments is calculated pursuant to local applicable severance pay laws and employee agreements based on the most recent salary of the employees. The Group's liability for all of its employees is partly settled by monthly deposits with insurance policies and by accruals. The deposited funds include profits accumulated up to the reporting date. The deposited funds may be withdrawn only upon the fulfilment of the obligation pursuant to local severance pay law or labour agreements. The value of the deposited funds is based on the cash value of these policies, and includes immaterial profits. The unfunded portion of the Group's liability is taken up in the statement of financial position as a provision under the heading 'Accrued employee retirement rights, net'. The provision is calculated based on the actuarial method using a project unit credit method approach.

O. Employee benefits – share options granted

The Group operates a share-based incentive plan. The fair value of share options granted to management and other employees as at the grant date is recognised as an employee expense, with a corresponding increase in equity recognised in retained earnings, over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Note 4 - Summary of significant accounting policies (cont'd)

P. Loans, accruals and short-term liabilities

All Loans and borrowings are initially recognised at fair value, being the amount of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

For information regarding the fair value of long-term liabilities reference is made to Note 34.

Accruals and short-term liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Derecognition takes place when its contractual obligations are discharged or cancelled or expire.

Q. Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

R. Revenue recognition

(1) Revenues from admission (ticket sales) and concession sales (snack-bars operated by the Company) are recognised when services are provided.
(2) Revenues from distribution of cinema films are recognised on an accrual basis by a percentage of admissions from the related films.
(3) Revenues from distribution of films to cable television companies and television stations are recognised over the agreed period for the screening of the film.
(4) Revenues from sales of video cassettes and DVDs are recognised upon delivery to the customer.
(5) Revenues from 'on screen' advertising contracts are included in theatre revenues and are recognised when the related advertisement or commercial is screened, or, in some cases, over the period of the contract.
(6) Revenues from rental contracts are included in other revenues and are recognised on an accrual basis.
(7) Revenues from the sale of real estate are included in revenue from the sale of real estate and are recognised when the significant risks and benefits of the ownership have been transferred, when the buyer is committed to the purchase, and when the sales price is considered collectible.
(8) Income from investment properties comprise gains arising from a change in fair value.

Change in estimate:

During the year ended 31 December 2011, the Group conducted a comprehensive review of its revenue and expenses recognition procedures regarding the distribution of movies to TV-platform which resulted in a reduction of the expected period during which such revenue and related expenses are recognised. The effect of this change in accounting estimate is an increase of revenue and expenses recognised during the first year of distribution and a decrease in following years. The net impact of the change in estimate on the Company's result for the year ended 31 December 2011 was an increase in gross margin of approximately EUR 0.7 million in respect of the distribution contracts which were not yet recognised as at 31 December 2010. If the Company would not have changed the accounting estimate, this net income would have been recognised in the next five years.

Note 4 - Summary of significant accounting policies (cont'd)

S. Cost of revenues

(1) Cost of theatre sales include direct concession product and theatre facility costs such as employee costs, theatre rental and utilities, which are common to both ticket sales and concession operations.

(2) Cost of films distributed are capitalised until the time the films are distributed for screening. Once the films have been distributed and screening has begun, the costs are amortised at a rate equal to the ratio of revenues in the period to total estimated revenues for the films.

(3) General advertising expenses are expensed as incurred. Film advertising expenses are expensed when the film is distributed or is shown to the public.

T. Financing income and expenses

Financing expenses comprise interest payable on borrowings calculated using the effective interest rate method, and interest receivable on funds invested.

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

U. Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year calculated at the applicable local tax rates.

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities. The amount of deferred tax provided is based on the expected timing of the reversal of the temporary differences, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legal enforceable right to offset current tax assets and liabilities, and they relate to income taxes received by the same tax authority.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

V. Earnings per share

The computation of the basic earnings per share is determined on the basis of the weighted average number of ordinary shares outstanding during the year. The diluted earnings per share are determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding adjusted for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Note 4 - Summary of significant accounting policies (cont'd)

W. Segment reporting

Segment information is presented in respect of the Group's operating segments. The Group determines and presents operating segments based on the information provided to the members of the Management Board who are the Group's chief operating decision makers.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly loans and borrowings and income tax assets and liabilities. Inter-segment pricing is determined on an arm's length basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

X. Jointly controlled entities

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

Y. Cash flow statement

The consolidated cash flow statement is presented using the indirect method. Cash flows in foreign currencies are translated into euros using the applicable average exchange rate for the period.

Z. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations, insofar endorsed by the European Union, are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these consolidated financial statements:

- The first phase of IFRS 9 Financial Instruments: Classification and Measurement – effective for financial years beginning on or after 1 January 2015 – not endorsed by EU till the date of approval of these financial statements. In subsequent phases, the IASB will address hedge accounting and impairment. The application of the first phase of IFRS 9 will have impact on classification and measurement of the financial assets of the Group. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.
- Amendments to IAS 19 Employee Benefits - effective for financial years beginning on or after 1 January 2013,

Note 4 - Summary of significant accounting policies (cont'd)

Z. New standards and interpretations not yet adopted (cont'd)

- Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income - effective for financial years beginning on or after 1 July 2012,
- Amendments to IAS 12 Income Taxes: Deferred Tax: Recovery of Underlying Assets – effective for financial years beginning on or after 1 January 2012 – not endorsed by EU till the date of approval of these financial statements.
- Amendments to IFRS 1 First–time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First–time Adopters – effective for financial years beginning on or after 1 July 2011 – not endorsed by EU till the date of approval of these financial statements.
- IFRS 10 Consolidated Financial Statements – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- IFRS 11 Joint Arrangements – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- IFRS 12 Disclosure of Interests in Other Entities – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance - effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- IFRS 13 Fair Value Measurement - effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- IAS 27 Separate Financial Statements – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- IAS 28 Investments in Associates and Joint Ventures – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine - effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IFRS 7 Financial Instruments – Disclosures: Offsetting Financial Assets and Financial Liabilities - effective for financial years beginning on or after 1 January 2013– not endorsed by EU till the date of approval of these financial statements,
- Amendments to IAS 32 Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities- effective for financial years beginning on or after 1 January 2014 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IFRS 1 First–time Adoption of International Financial Reporting Standards: Government Loans – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- Improvements to IFRSs (issued in May 2012) – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (issued on 31 October 2012) – effective for financial years beginning on or after 1 January 2014 – not endorsed by EU till the date of approval of these financial statements.

Note 5 - Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) **Marketable securities**
The fair value of investments held for trading is their quoted bid price as of the reporting date. Unrealised gains and losses on these securities are included in the income statement.

(b) **Available for sale financial assets**
The fair value of available for sale financial assets is stated at bid prices for quoted investments, or estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. If the fair value of these investments cannot be measured at reliable bases, the investments are stated at cost less impairment losses.

(c) **Trade and other receivables**
The fair value of trade and other receivables, which is determined for disclosure purposes, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(d) **Derivative financial instruments**
The fair value of foreign contracts is estimated by discounting the difference between the contractual forward price and the relevant current exchange rates at reporting date using a risk-free interest rate (based on government bonds).

(e) **Non-derivative financial instruments**
The fair value of non-derivative financial instruments, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(f) **Share-based payments**
The fair value of employee stock options is measured using a binomial lattice model. Fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Note 6 - Changes in consolidated entities

A. Changes in consolidated and associated entities during 2012

Entity newly in consolidation:

- Cinema City Holding B.V., 100% owned by the Company, incorporated in the Netherlands
- Israel Theatres Real Estate B.V ("ITRE")., 100% owned by the Company, incorporated in the Netherlands
- Global Parks Holding B.V. - 100% owned by the Company, incorporated in the Netherlands.
- I.T.R. 2012 B.V - 100% owned by the Company, incorporated in the Netherlands.
- Rav Chen Real Estate Ltd - 100% owned by the Company, incorporated in Israel.
- Theatraot Parking Ltd - 100% owned by the Company, incorporated in Israel.
- Theatraot Management Ltd - 100% owned by the Company, incorporated in Israel.
- M.O. Rousse AD - 100% owned by the Company, incorporated in Bulgaria.
- RESB EOOD - 100% owned by the Company, incorporated in Bulgaria.
- Park Tower EOOD - 100% owned by the Company, incorporated in Bulgaria.
- Stara Zagora EOOD - 55% owned by the Company, incorporated in Bulgaria.
- MOR Management EOOD - 100% owned by the Company, incorporated in Bulgaria.
- Global Parks Building Sp .z o.o. - 100% owned by the Company, incorporated in Poland.
- Global Parks Continental Sp. z o.o. - 100% owned by the Company, incorporated in Poland.
- Global Parks Poland Sp. z o.o. - 100% owned by the Company, incorporated in Poland.

  - *The above companies (except from Cinema City Holding B.V) are subsidiaries of Israel Theatres Real estate B.V which were acquired in December 2012. This acquisition was treated as a set of assets and not as business business combination*

Newly acquired associated entities

- Ronson Europe N.V. – 32.11% owned by the Company, incorporated in the Netherlands. – see note 11

Other changes:

- the acquisition of the non-controlling interests in Norma Film Ltd (see Note 7 and 33), and
- the acquisition of the non-controlling interests in Ya’af - Giant Video Library Network Ltd., a subsidiary of Norma Film Ltd. - currently dormant - in which Norma Film Ltd. previously held a 60% interest.

Following these transactions, Norma Film Ltd. and its subsidiaries, Forum Film Ltd., Ya'af - Automatic Video Machines Ltd. and Ya’af - Giant Video Library Network Ltd, are fully owned by the Company.

Note 6 - Changes in consolidated entities (cont'd)

B. Changes in consolidated entities during 2011

Entity newly in consolidation:

- Palace Cinemas Hungary Kft, 100% owned by the Company, incorporated in Hungary.
- Palace Cinemas Slovak Republic s.r.o., 100% owned by the Company, incorporated in Slovakia (in the third quarter of 2011 this company merged into Cinema City Slovakia s.r.o.).
- Palace Multikino s.r.o., 100% owned by the Company, incorporated in Slovakia (in May 2011, the name of this company was changed to Cinema City Slovakia s.r.o.).
- Palace Cinemas Czech s.r.o., 100% owned by the Company, incorporated in the Czech Republic (in September 2011 this company merged into Cinema City Czech s.r.o.).
- All of the companies above were acquired as part of the Palace Cinemas acquisition in January 2011 (see Note 7).
- Forum Film Slovakia s.r.o., 100% owned by the Company, incorporated in Slovakia in May 2011. This entity specialises in the distribution of movies in Slovakia.
- Seracus Ltd., 100% owned by the Company, incorporated in Cyprus. In the third quarter, the Company contributed its shares in Cinema City Poland Sp. z.o.o, I.T Poland Development 2003 Sp. z.o.o, Forum Film Poland Sp. z.o.o, New Age Media Sp. Zoo and All Job Poland Sp. Zoo (Polish subsidiaries) to a Polish fund (see below), owned by Seracus Ltd., a subsidiary wholly owned by the Company. Following the contribution, the Polish subsidiaries were transferred into so-called joint-stock partnerships. These Polish entities will continue to be fully included in the Company's consolidated financial statements.
- Forum 40 Fundus Inwestycyjny Zamkniety – a Polish fund , 100% owned by the company.

Other changes:

- In December 2011, New Age Cinema Czech s.r.o. (previously dormant) changed its name to Forum Film Czech s.r.o. Forum Film Czech s.r.o. has started its distribution activities in the Czech Republic in January 2012.
- Forum Film Home Entertainment Kft merged into I.T Magyar Cinemas Kft.

Note 7 - Business combinations

Acquisition of non-controlling interests in Norma Film (2012)
During the second quarter of 2012, the Company completed the acquisition of the non-controlling interests in Norma Film Ltd. The 50% interest in Norma Film Ltd (Forum Film Israel), was acquired for an amount of EUR 1,755,000 in cash from I.M. Greidinger Ltd., an Israeli company owned by Messrs Moshe Greidinger and Israel Greidinger, both Managing Directors and (indirectly) shareholders of the Company. As of closing, Norma Film Ltd. (Forum Film Israel) is fully owned by the Company and its financial results will be fully integrated into the Company's financial results. As film distribution becomes a more important segment of the Company's business, there was no business rationale for the Company not to own 100% of all of its film distribution subsidiaries. Moreover, the acquisition of the remaining interest in Norma Film Ltd. will reduce the complicated manner of financial accounting associated with non-controlling interests.

In accordance with IFRS, the Company has recognised directly in equity the difference between the purchase price of the non-controlling interests and the adjustments to the carrying amounts of Norma Film Ltd following the acquisition of the non-controlling interests. As a result, an amount of EUR 3,724,000 has been charged to equity (under Retained earnings).

Norma Film Ltd. holds 100% of the equity share in Forum Film Ltd., a major film distributor in Israel, with distribution exclusivity in Israel for film produced by Disney, MGM and several other independent studios. In addition, Forum Film Ltd. acts as a sub-distributor for Sony and Fox movies in Israel.

Norma Film Ltd. also holds 100% of the equity share in Ya'af - Automatic Video Machines Ltd. and 100% of the equity share in Ya'af - Giant Video Library Network Ltd. However, these two subsidiaries are currently not active. Previously, Norma Film Ltd. held 60% of Ya'af - Giant Video Library Network Ltd. In June 2012, Norma Film Ltd acquired the remaining 40% of this subsidiary for an amount of NIS 6 thousand.

Acquisition of Palace Cinemas (2011)

On 19 January 2011, the Company signed a share and asset purchase agreement with Palace Cinemas (Central Europe) B.V. ('Palace Cinemas'), under which agreement the Company acquired 100% of the shares in four Central European subsidiaries of Palace Cinemas, notably: Palace Cinemas Czech s.r.o., Palace Cinemas Hungary Kft, Palace Cinemas Slovak Republic s.r.o. and Palace Multikino s.r.o. and related assets. The acquisition comprised in total 15 multiplexes with 141 screens in the Czech Republic, Hungary and Slovakia plus a leasing agreement for 1 multiplex with 8 screens in Ostrava, the Czech Republic which the company opened in 2012. Under the share and asset purchase agreement with Palace Cinemas, the Company was also rendering selected management services, during a transitional period , for the 8 multiplexes (with 48 screens) operated by Palace Mozi Kft, a Hungarian subsidiary of Palace Cinemas that was not acquired by the Company. In May 2011, the landlord at 3 of these multiplexes terminated the lease agreement with Palace Mozi Kft and, in mutual settlement of outstanding amounts owed by Palace Mozi Kft, assumed control of the assets of these multiplexes. Upon taking control, the landlord immediately leased the space occupied by these 3 multiplexes to the Company, which is currently operating these theatres.

The Company, supported by an independent valuation expert, identified the fair value of assets acquired and liabilities assumed on acquisition date (Purchase Price Allocation). The excess of the cost of the business acquired over the fair value of identifiable assets and liabilities resulted in goodwill. In connection with the acquisition, an amount of EUR 8,826,000 was recognised as goodwill which is mainly made up of future economic benefits including post-acquisition synergies.

Note 7 - Business combinations (cont'd)

At the closing, the Company paid EUR 21,374,000 to the seller and assumed EUR 6,546,000 in existing debt of the acquired companies. The acquisition was financed from the Company's existing cash and from available credit lines. The fair value of the total consideration transferred as at acquisition date amounts to EUR 21,374,000.
The following summarizes the consideration transferred, the recognised amounts of identifiable assets acquired and liabilities assumed at the acquisition date and the recognised goodwill:

	EUR (thousands)
Identifiable assets acquired and liabilities assumed	
Property and equipment	20,248
Intangible assets	997
Trade accounts receivable	1,317
Inventories	295
Deferred tax assets	1,010
Other accounts receivable and prepaid expenses	2,195
Cash and cash equivalents in subsidiaries acquired	2,948
Long-term loans assumed	(6,546)
Other long-term liabilities	(613)
Deferred tax liabilities	(967)
Trade accounts payable	(3,992)
Employee and payroll accruals	(404)
Other accounts payable	(3,940)
Total net identifiable assets	**12,548**
Recognised goodwill (Note 8)	8,826
Total consideration	**21,374**
Less: cash and cash equivalents in subsidiaries acquired	2,948
Total net cash consideration	**18,426**

The Company incurred acquisition-related costs of EUR 3,278,000 associated primarily with legal, accounting and advisory fees and one-time reorganisation expenses in conjunction with integrating the acquisition into the Company's existing platform. These amounts have been included in the Consolidated Income Statement as Acquisition-related and reorganisation expenses.
The Palace Cinemas were acquired effectively as of 19 January 2011. Bearing in mind the immediate reorganisation and integration of these cinemas into the Company's operations, the Palace acquisition is estimated to have contributed in 2011 revenue of approximately EUR 45 million.

Note 8 - Intangible assets

Financial year 2012

	Balance at beginning of year	Additions during the year	Acquisitions through business combinations	Foreign currency translation adjustments	Sales and disposals	Balance at end of year
	EUR (thousands)					
Cost						
Goodwill (see Note 7)	**8,826**	**-**	**-**	**-**	**-**	**8,826**
Distribution rights	**3,333**	*** 7,734**	**-**	**293**	**-**	**11,360**
Other intangible assets	**4,464**	**610**	**-**	**(36)**	**(61)**	**4,977**
	16,623	**8,344**	**-**	**257**	**(61)**	**25,163**
Amortisation and impairment losses						
Goodwill	**-**	**-**	**-**	**-**	**-**	**-**
Distribution rights	**915**	**2,825**	**-**	**128**	**-**	**3,868**
Other intangible assets	**2,549**	**664**	**-**	**(218)**	**(61)**	**2,934**
	3,464	**3,489**	**-**	**(90)**	**(61)**	**6,802**
Carrying value	**13,159**	**4,855**	**-**	**347**	**-**	**18,361**

* the increase is mainly due to the expansion of the distribution activity in 2012 and purchase of new distribution rights

Financial year 2011

	Balance at beginning of year	Additions during the year	Acquisitions through business combinations	Foreign currency translation adjustments	Sales and disposals	Balance at end of year
	EUR (thousands)					
Cost						
Goodwill (see Note 7)	-	-	8,826	-	-	8,826
Distribution rights	-	3,333	-	-	-	3,333
Other intangible assets	2,219	732	1,832	(272)	(47)	4,464
	2,219	4,065	10,658	(272)	(47)	16,623
Amortisation and impairment losses						
Goodwill	-	-	-	-	-	-
Distribution rights	-	915	-	-	-	915
Other intangible assets	1,418	492	835	(150)	(46)	2,549
	1,418	1,407	835	(150)	(46)	3,464
Carrying value	801	2,658	9,823	(122)	(1)	13,159

Note 8 - Intangible assets (cont'd)

In connection with the acquisition of Palace Cinemas, an amount of EUR 8,826,000 was recognised during the year ended 31 December 2011 as goodwill which is mainly made up of future economic benefits including post-acquisition synergies (see Note 7).
The other intangible assets comprise mainly software and are stated at cost less accumulated amortisation and impairment losses, if any.

The goodwill has been allocated for impairment testing to the theatre operations in Hungary (EUR 2,678 thousand) and the theatre operations in the Czech Republic and Slovakia combined (EUR 6,148 thousand), each representing the lowest level within the Group at which the goodwill is monitored for internal management purposes.
During the year ended 31 December 2012, the Company has determined that there is no impairment of any of its (group of) cash-generating units containing goodwill. The recoverable amounts of the units are calculated on the basis of value in use and based on financial budgets covering a 5 year period, and a discount rate of 10.5% to the Hungarian operation and the Czech and Slovakian operations , representing the Company's weighted average cost of capital. The cash flows beyond the 5 year period are extrapolated using a prudent 2.8% growth rate for the relevant segments. Management believes that any reasonable possible change in the key assumptions on which the recoverable amounts are based would not cause the relevant carrying amounts to exceed these recoverable amounts.

Key assumptions used in the value in use calculations, which are based on the company's past experience, are the following:

- The Company has assumed an average annually growth percentage of 2% during the next 5 years.
- The fixed costs will increase in 3% annually in the next 5 years.

Note 9 - Property and equipment

	Financial year 2012				
	Balance at beginning of year	**Additions during the year (1) (4)**	**Foreign currency translation adjustments**	**Sales and disposals**	**Balance at end of year**
Cost					
Land and buildings(2)	**89,571**	**57,762**	**4,352**	**-**	**151,685**
Cinema equipment(3)	**198,971**	**21,544**	**9,523**	**(2,908)**	**227,130**
Leasehold improvements(2)	**134,238**	**10,747**	**6,617**	**(853)**	**150,749**
Computers, furniture and office equipment	**9,687**	**1,093**	**247**	**(233)**	**10,794**
Vehicles	**1,820**	**516**	**44**	**(160)**	**2,220**
	434,287	**91,662**	**20,783**	**(4,154)**	**542,578**
Accumulated depreciation					
Land and buildings	**23,261**	**2,836**	**1,692**	**-**	**27,789**
Cinema equipment	**85,609**	**15,753**	**3,727**	**(2,739)**	**102,350**
Leasehold improvements	**52,774**	**7,505**	**1,952**	**(853)**	**61,378**
Computers, furniture and office equipment	**7,855**	**654**	**211**	**(68)**	**8,652**
Vehicles	**871**	**318**	**19**	**(88)**	**1,120**
	170,370	**27,066**	**7,601**	**(3,748)**	**201,289**
Carrying value	**263,917**	**64,596**	**13,182**	**(406)**	**341,289**

(1) Included under 'Additions during the year – at cost' are borrowing costs amounting to EUR 1,116,000 capitalised using an average rate of 4.7%.

(2) The balance as of 31 December 2012 includes EUR 6,047,000 construction in progress.

(3) The balance as of 31 December 2012 includes EUR 426,000 in respect of cinema equipment not yet operational.

(4) Includes under 'Additions during the year – at cost' an amount of EUR 32,303,000 due to the Purchase of Israel Theatres Real Estate B.V (see note 33). The rest are comprised of investment in new cinemas, digital projectors and renovations. Regarding the uncertainty regarding valuation – see below.

- The continued instability in the financial markets causes volatility and uncertainty in the world's capital markets and real estate markets. There is a low liquidity level in the real estate market and transaction volumes have significantly reduced, resulting in a lack of clarity as to pricing levels and market drivers. As a result, there is less certainty with regard to valuations and market values can change rapidly due to the current market conditions.

Note 9 - Property and equipment (cont'd)

	Financial year 2011					
	Balance at beginning of year	Additions during the year (1)	Acquisitions through business combinations (2)	Foreign currency translation adjustments	Sales and disposals	Balance at end of year
	EUR (thousands)					
Cost						
Land and buildings(3)	75,334	11,512	7,942	(5,217)	-	89,571
Cinema equipment(4)	154,219	36,801	23,365	(13,804)	(1,610)	198,971
Leasehold improvements(3)	124,314	5,018	15,707	(10,792)	(9)	134,238
Computers, furniture and office equipment	7,950	497	1,809	(557)	(12)	9,687
Vehicles	1,524	568	41	(99)	(214)	1,820
	363,341	54,396	48,864	(30,469)	(1,845)	434,287
Accumulated depreciation						
Land and buildings	21,034	2,320	1,660	(1,753)	-	23,261
Cinema equipment	64,515	13,084	15,510	(6,060)	(1,440)	85,609
Leasehold improvements	39,112	7,665	9,938	(3,937)	(4)	52,774
Computers, furniture and office equipment	6,154	666	1,502	(461)	(6)	7,855
Vehicles	765	275	6	(43)	(132)	871
	131,580	24,010	28,616	(12,254)	(1,582)	170,370
Carrying value	231,761	30,386	20,248	(18,215)	(263)	263,917

(1) Included under 'Additions during the year – at cost' are borrowing costs amounting to EUR 815,000 capitalised using an average rate of 4.3%

(2) See Note 7 Business Combinations.

(3) The balance as of 31 December 2011 includes EUR 23,046,000 construction in progress.

(4) The balance as of 31 December 2011 includes EUR 134,000 in respect of cinema equipment not yet operational.

Note 10 – Investment property

As at 31 December 2012, the investment property comprises mainly from a shopping mall in Bulgaria, an office building and some other real estate projects in Israel which are mainly leased to third parties.

Most of the leases contain an initial period between 1-10 years, with annual rent which mainly comprises of base rent and turnover rent. Rent is linked to the Euribor or to the CPI. Most of the rental contracts contain an extension option.

Investment properties are stated at fair value using the discounted cash flow method, which has been determined based on valuations performed by independent valuators with a recognized and relevant professional qualification and with recent experience in the local market and the specific category of the investment properties valued.
The following primary inputs have been used for the main project (the shopping mall in Bulgaria):

- Yields rate of 9.5%
- Long Term Growth of 3% per annum
- Average rent monthly price per square meter starting from 7.00 Euro in 2012 to 13.00 Euro in 2016.

Any change in the above assumption could have lead to a change in value of the valuated investment property. Furthermore, the continued instability in the financial markets causes volatility and uncertainty in the world's capital markets and real estate markets. There is a low liquidity level in the real estate market and transaction volumes have significantly reduced, resulting in a lack of clarity as to pricing levels and market drivers. As a result, there is less certainty with regard to valuations and market values can change rapidly due to the current market conditions.

The table below presents the sensitivity of profit (loss) before tax as of 31 December 2012 and 2011 due to change in underlying assumptions in relation to the investment property (the values are presented in absolute numbers as a change can either be positive or negative):

Completed investment property	**31 December**	
	2012	**2011**
	EUR (thousands)	
Change of 25 bp in yield/discout rate	2,124	-
Change of 5% in estimated rental income	4,036	-

Movements:	**31 December**	
	2012	**2011**
	EUR (thousands)	
Balance at beginning of the year	**-**	-
Acquisitions during the year (see Note 33)	**80,731**	-
Fair value adjustment	**-**	-
Balance at end of the year	**80,731**	**-**

Note 11 – Investment in an associate

On 19 December 2012, as part of the acquisition of Israel Theatres Real Estate B.V. (see Note 33), the Company acquired an interest in Ronson Europe N.V.
The Company acquired 87,449,187 shares representing an interest of 32.11% through a jointly controlled general partnership formed under Dutch law between ITR 2012 B.V (subsidiary of the company) and ITR Dori B.V. the general partners jointly exercise the voting rights attached to 64.22% of the Shares in Ronson Europe N.V

Ronson Europe N.V., a Dutch holding company publicly listed on the Warsaw Stock Exchange, is principally engaged in the holding of interests in and the financing of Polish enterprises that are active in the development and sale of apartments in various Polish cities.

Movements:	**31 December**	
	2012	**2011**
	EUR (thousands)	
Balance at beginning of the year	**-**	-
Acquisitions during the year	**33,134**	-
Share of profit of equity-accounted investees (net of tax)	**1,368**	-
Share of profit of equity-accounted investees (net of tax) of related party (for the period between 30.09.2012 to 19.12.2012)*	**1,139**	-
Foreign currency translation adjustments	**328**	-
Balance at end of the year	**35,969**	-

* This amount is a deferred payment relating to the purchase of Israel Theatres Real Estate B.V.
The following table illustrates the summarised financial information of the Group's investment in Ronson Europe N.V:

	31 December	
	2012	**2011**
	EUR (thousands)	
Total assets	**62,017**	-
Total liabilities (including non controlling interests)	**(26,048)**	-
Shareholder's equity	**35,969**	-
Revenue	**5,334**	-
Net Profit	**1,368**	-

Note 12 - Inventories

Composition:

	31 December 2012	31 December 2011
	EUR (thousands)	
Concession products	**1,723**	1,760
Video cassettes and DVDs	**128**	260
IMAX® films inventories	**-**	1,474
Spare parts	**2,693**	3,158
	4,544	6,652

Valuation:

	31 December 2012	31 December 2011
	EUR (thousands)	
At cost	**4,544**	6,652
Provision for net realisable value	**-**	-
	4,544	6,652

All inventories included above are valued at cost.

Note 13 - Trade accounts receivable

Composition:

	31 December 2012	31 December 2011
	EUR (thousands)	
Trade accounts receivable *	**20,247**	14,884
Allowance for doubtful accounts	**(172)**	(126)
	20,075	14,758

* The increase is mainly due to strong activity in distribution and advertisement in the last quarter of 2012.

Note 14 - Other accounts receivable and prepaid expenses

Composition:

	31 December 2012	31 December 2011
	EUR (thousands)	
Government institutions	**1,308**	2,599
Advances to suppliers	**904**	816
Prepaid expenses	**3,674**	6,264
Prepaid cinema film and video film distribution costs(1)	**1,334**	1,450
Other	**1,159**	1,456
	8,379	12,585

(1) Stated at cost, in respect of video and cinema films which have not yet been distributed, after being reviewed for recoverability.

Note 15 – Long-term receivable from related parties

At 21 April 2010, the Company sold all of its interests in real estate development projects to its controlling shareholder, Israel Theatres Ltd.

Israel Theatres paid the Company EUR 76.2 million at the closing and agreed to pay a further EUR 15 million of deferred consideration plus a percentage of any potential gains.

As part of the purchase of Israel Theatres Real Estate B.V, the Company settled by way of set-off its entitlement to receive deferred consideration and potential profits. See Note 33 regarding the settlement of the balance with the purchase of Israel theatres real Estate B.V.

Note 16 - Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits freely available for the Group. The short-term deposits have an original maturity varying from one day to three months.

Composition:	**31 December**	
	2012	**2011**
	EUR (thousands)	
Cash at bank and in hand	**25,538**	9,229
Short-term deposits	**1,128**	48
	26,666	9,277

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at a short-term deposit rate of 2.0% (2011: 2.0%).

Note 17 - Short-term bank deposits - collateralised

In 2012, deposits with banks in Central Europe denominated in Euros for a total amount of EUR 3,083,000 (2011: EUR 340,000) were made to serve as collateral for credit facilities provided to a subsidiary. The interest rates earned on these deposits vary from 0.75% to 2.8% on an annual basis.

Note 18 - Shareholders' equity

a. Share capital
The authorised share capital of the Company consists of 175,000,000 shares of EUR 0.01 par value each.

The number of issued and outstanding ordinary shares as at 1 January 2012 was 51,200,000 and remained unchanged during the financial year ended 31 December 2012 (2011: 51,200,000).

All shares issued and outstanding at 31 December 2012 have been fully paid. Ordinary shares carry the right of one vote per share and participation in payments of dividends.

b. Accumulated currency translation adjustments
The accumulated translation adjustments comprise all foreign currency differences arising from the translation of the financial statements of foreign operations. This legal reserve is not available for dividend distribution

c. Hedge reserve
The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. This legal reserve is not available for dividend distribution

d. Share options
The Company has implemented a long-term incentive plan (the 'Plan'). Under the Plan, share options can be granted to members of the Management Board and selected employees. The number of options granted to certain employees of the Group have been as follows:

- on 6 December 2006: 477,000 options with an exercise price of EUR 5.05 each;
- on 17 September 2008: 105,000 options with an exercise price of PLN 25 each;
- on 18 November 2009: 62,000 options with an exercise price of PLN 25 each.

All options vest in one to three years and have an option term of four years. Members of the Management Board did not receive any options under this Plan. For the new plan in 2012, see below.
In December 2007, a total number of 110,000 options that were granted in 2006 were exercised. The average share price at the time of exercise was EUR 9.42 per share. In February 2010, a total number of 25,000 options that were granted in 2006, were exercised. The average share price at the time of exercise of these options was PLN 36.05. In April 2010, a further 341,000 options were exercised. The average share price at the time of exercise of these options was PLN 34.00.
The weighted average exercise price of options outstanding (vested but not yet exercised and not expired) amounts to EUR 6.13. The number of exercisable options under the Plan at 31 December 2012 is 125,000 (see also below regarding the New Plan).

Note 18 - Shareholders' equity (cont'd)

d. Share options (cont'd)

The details of the number of options outstanding as at 31 December 2012 under the Plan are as follows:

Vesting date	Exercise price	Number of options: Granted	Exercised	Expired	Outstanding
6 December 2007	EUR 5.05	159,000	152,000	7,000	-
6 December 2008	EUR 5.05	159,000	141,000	18,000	-
6 December 2008	PLN 25	27,000	16,000	-	11,000
6 December 2009	EUR 5.05	159,000	141,000	18,000	-
6 December 2009	PLN 25	47,666	26,000	-	21,666
6 December 2010	PLN 25	71,667	-	-	71,667
6 December 2011	PLN 25	20,667	-	-	20,667
		644,000	476,000	43,000	125,000

The weighted average fair values at grant date of Plan options using the Black-Scholes valuation model have been calculated using the following significant assumptions as input into the model:

Grant date	Input of assumptions: Exercise price	Weighted average share price	Volatility*	Dividend yield	Option life (years)	Annual risk free rate	Fair value per option
6 December 2006	EUR 5.05	EUR 1.10	20%	0%	4	4%	**EUR 1.00**
17 September 2008	PLN 25.00	PLN 20.00	43%	0%	4	4%	**EUR 1.10**
18 November 2009	PLN 25.00	PLN 22.50	41.2%	0%	4	4%	**EUR 1.39**

* The expected volatility is estimated by considering historic average share price volatility.

During the financial year ended 31 December 2012 73,000 share options under the Plan that were set to expire in September 2012 were extended for one year, until September 2013, to take into account the unfavourable market conditions prior to the expiration that would have made exercise of such options very difficult.

In addition to the Plan described above, in April 2012, Mr Amos Weltsch, member of the Management Board of the Company, was granted 650,000 options as a part of his remuneration package (the 'New Plan'), each entitling him to subscribe for one share in the Company at the issue price of PLN 29 per share. The issue price is based on the six-month average share price of the shares on the Company on the Warsaw Stock Exchange in the period between 31 August 2011 and 29 February 2012.
The options granted to Mr Weltsch will vest in 47 equal monthly tranches of 13,542 options, each on the last day of each month in the period from 30 April 2012 to 29 February 2016, with an additional tranche of 13,526 options vesting on 31 March 2016. Mr Weltsch may exercise the options vested to him in each of the tranches on multiple occasions within two years from the date the given tranche of share options was vested.

The granting of the options was approved by the shareholders of the Company during the Annual General Meeting of the Company held on 21 June 2012. The number of exercisable options at 31 December 2012 from the New Plan is 121,878.

Note 18 - Shareholders' equity (cont'd)

d. Share options (cont'd)

The weighted average fair values at grant date of New Plan options using the Black-Scholes valuation model have been calculated using the following significant assumptions as input into the model:

	Input of assumptions						Average Fair value per option
Grant date	**Exercise price**	**Weighted average share price**	**Volatility***	**Dividend yield**	**Option life (years)**	**Annual risk free rate**	
April 2012	PLN 29.00	PLN 32.18	22.55% - 30.93%	0%	2-3	4.5%	PLN 1.86

* The expected volatility is estimated by considering historic average share price volatility.

The impact of the share-based payment on the financial statements of the Company for the financial year 2012 was an expense of EUR 489,000 (2011: EUR 16,000) which was recognised in the income statement.

Note 19 - Net earnings per share

The calculation of basic and diluted net earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders of EUR 24,779,000 (2011: EUR 20,925,000), and a weighted average number of ordinary shares outstanding as presented below:

Weighted average number of ordinary shares (basic and diluted):

	Financial year	
	2012	**2011**
	number of shares	
Number of ordinary shares at beginning of the year	**51,200,000**	51,200,000
Effect of shares issued during the year	**-**	-
Weighted average number of ordinary shares (basic)	**51,200,000**	51,200,000
Effect of share options issued and outstanding	**23,390**	32,462
Weighted average number of ordinary shares (diluted)	**51,223,390**	51,232,462

Note 20 - Non-controlling interests

	Financial year	
	2012	2011
	EUR (thousands)	
Balance at beginning of the year	**(2,071)**	(4,957)
Non-controlling interests in earnings	**251**	449
Translation adjustments	**(99)**	206
Acquisition of non-controlling interests, net *	**3,275**	-
Classification of minority shareholders' loan to non-controlling interest	**-**	2,231
Balance at end of the year	**1,356**	(2,071)

* In 2012, includes the purchase of Non controlling interests in Norma Film Lt.d and Yaaf- Automatic Video Machines Ltd(see note 7) in amount of 1,919 TEUR and a purchase of non controlling interests in M.O Stara Zagora EOOD (see note 33) in amount of 1,356 TEUR.

Note 21 - Accrued employee retirement rights

a. According to the relevant laws, the Company’s subsidiaries in Europe are required to deposit amounts, on a monthly basis, to retirement and pension funds on behalf of their employees, and therefore have no such liabilities towards them.

b. Local applicable labour laws and agreements require group companies to pay severance pay to dismissed or retiring employees (including those leaving their employment under certain other circumstances). The calculation of the severance pay liability was made in accordance with labour agreements in force and based on salary components that, in management’s opinion, create entitlement to severance pay.
   Group companies’ severance pay liabilities to their employees are funded partially by regular deposits with recognised pension and severance pay funds in the employees’ names and by purchase of insurance policies and are accounted for as if they were a defined contribution plan. The amounts funded as above are netted against the related liabilities and are not reflected in the statement of financial position since they are not under the control and management of the companies.

c. The amounts of the liability for severance pay presented in the statement of financial position (see (e) below) reflect that part of the liability not covered by the funds and the insurance policies mentioned in (b) above, as well as the liability that is funded by deposits with recognised central severance pay funds held under the name of the Company’s subsidiaries.

d. The cost of severance provision is determined according to the actuarial method, the projected unit credit method. It has been calculated using a discounted cash flow approach. The calculations are based on the following assumptions:
   - Discount at 31 December 2012: 0.35% (1.74% at 31 December 2011)
   - Expected return on plan assets at 1 January 2013: 1.32% (2.60% at 1 January 2012)

Note 21 - Accrued employee retirement rights (cont'd)

e. The provision for accrued employee rights upon retirement, net, comprises:

	31 December 2012	31 December 2011
	EUR (thousands)	
Present value of unfunded obligation	**3,124**	2,670
Less: Fair value of plan assets	**(2,063)**	(1,821)
	1,061	849

f. The movements in the provision for accrued employee rights upon retirement during the financial year are as follows:

	Financial year 2012		
	Gross amount	Amount deposited	Net amount
		EUR (thousands)	
Balance at beginning of the year	**2,670**	**(1,821)**	**849**
Translation difference	**12**	**(8)**	**4**
Payments made upon retirement	**-**	**(122)**	**(122)**
Net movement in provision - charged to net profit	**442**	**(112)**	**330**
Balance at end of the year	**3,124**	**(2,063)**	**1,061**

	Financial year 2011		
	Gross amount	Amount deposited	Net amount
		EUR (thousands)	
Balance at beginning of the year	2,530	(1,796)	734
Translation difference	(100)	71	(29)
Payments made upon retirement	-	(139)	(139)
Net movement in provision - charged to net profit	240	43	283
Balance at end of the year	2,670	(1,821)	849

Note 22 - Long-term loans

A. ***Composition:***

	Interest rates [1]	31 December 2012	2011
	%	EUR (thousands)	
In CZK	-	**-**	2,832
In EUR	EURIBOR 3M +3.5% EURIBOR 3M+3.75%	**136,632**	16,860
In HUF	-	**-**	860
In NIS	Prime + 1.69% and 5.63%	**34,549**	
In PLN	WIBOR + 3.5%	**52,013**	28,996
		223,194	49,548
Less: current portion		**(19,117)**	(13,054)
		204,077	36,494

(1) The interest rates shown concern the rates per 31 December 2012.

* The increase in the loan is mainly due to the loan assumed due to the purchase of Israel theatres real Estate B.V (see note 33) and new investments in fixed and intangible assets in the group. Regarding compliance with bank covenants see note 33.

B. ***The loans mature as follows:***

	31 December 2012	2011
	EUR (thousands)	
First year - current maturities	**19,117**	13,054
Second year	**18,108**	11,274
Third year	**23,878**	10,598
Fourth year	**23,615**	7,943
Fifth year	**23,606**	374
Sixth year and thereafter	**114,870**	6,305
	223,194	49,548

C. ***Liens*** - see Note 26 (2).

Note 23 - Short-term borrowings

Composition:

	Interest rates [1]	31 December 2012	31 December 2011
	%	EUR (thousands)	
Current maturities of long-term loans	See Note 22	**19,117**	13,054
Short-term bank credit:			
Unlinked (NIS)	3.6%	**1,423**	10,197
In PLN	Wibor 1M+0.75%	**2,202**	7,080
		22,742	30,331

(1) The interest rates shown concern the rates per 31 December 2012.

Note 24 - Other accounts payable

Composition:

	31 December 2012	31 December 2011
	EUR (thousands)	
Investment creditors	**1,077**	2,628
Accrued expenses *	**22,517**	12,540
Deferred income	**1,029**	1,397
Government institutions	**2,203**	1,002
Advances and income received in advance	**298**	119
Other	**1,541**	595
	28,665	18,281

* The increase in 2012 is mainly due to the increase in film distribution activity in the last quarter of 2012 and to accrued expenses due to loan arrangement fees.

Note 25 - Other long-term liabilities

Composition:

	31 December 2012	31 December 2011
	EUR (thousands)	
Loan from Minority shareholder *	**1,048**	-
Other	**130**	179
	1,178	179

* The change is mainly due to the purchase of Israel theatres real Estate B.V.

Note 26 - Commitments, liens and contingent liabilities

(1) Commitments

a. The Company and its subsidiaries conduct most of their cinemas and corporate operations in leased premises. These leases, which have non-cancellable clauses, expire at various dates after 31 December 2012. Many leases have renewal options. Most of the leases provide for contingent rentals based on the revenues of the underlying cinema, while certain leases contain escalating minimum rental provisions. Most of the leases require the tenant to pay city taxes, insurance, and other costs applicable to the leased premises.

Future minimum lease payments under non-cancellable operating leases from third parties for the years after 31 December 2012 are as follows:

	EUR (thousands)*
2013	**36,155**
2014	**34,842**
2015	**33,735**
2016	**33,416**
2017	**30,380**
After 2017	**92,498**
	261,026

* Does not include contingent rental, which is subject to the Company's decision to exercise the option to extend the operating lease period.

Future minimum lease payments under non-cancellable operating leases from third parties for the years after 31 December 2011 were as follows:

	EUR (thousands)*
2012	31,504
2013	31,406
2014	31,967
2015	32,151
2016	31,002
After 2016	104,336
	262,366

* Does not include contingent rental, which is subject to the Company's decision to exercise the option to extend the operating lease period. The increase in 2012 is mainly due to new cinemas that the company opened during the year and new contracts that the company signed for opening new cinemas.

Rental expenses for theatres during 2012 amounted to EUR 33,623,000 (2011: EUR 30,442,000).

Note 26 - Commitments, liens and contingent liabilities (cont'd)

b. As at 31 December 2012, the Group has unpaid commitments to invest in the development of properties of approximately EUR 4.1 million (31 December 2011: EUR 15.5 million) and has further commitments to acquire cinema equipment of approximately EUR 0.1 million (31 December 2011: EUR 8.7 million).

c. In consideration for expanding the distribution activities and the supply of distribution product, the Company has signed, through its distribution arm in all countries of activities, agreements with third parties for exclusive distribution rights for several movies. According to these agreements, the Company commits to pay minimum guaranteed fees in the near future based on a timeline set in each agreement. The payments are subject to the supply of movies. The total value of the agreements signed until the end of 2012 is around Euro 10.0 million.

d. The Group, through its subsidiaries, has signed agreements with third parties in Israel, Poland and Hungary. According to these agreements, the Group grants the third parties exclusive broadcasting rights on Israeli, Polish and Hungarian television for specific movies. The duration of these rights vary from three to five years for each film sold.

e. Movie films are typically licensed from film distributors representing film production companies. Film exhibition licences typically specify rental fees based upon a gross receipts formula, which is negotiated on a movie-by-movie basis in advance of distribution. The fees are generally related to the anticipated performance of the movie based on the distributor's experience in other markets, if possible. Under such a formula, the distributor receives a specified percentage of box office receipts, with the percentage declining over the term of the run.

f. Lease contracts of certain cinema equipment of IMAX® systems are classified as finance lease and as such the equipment is included in property and equipment under cinema equipment. The total of the lease obligation at 31 December 2012 amounted to EUR 928,000 (31 December 2011: EUR 1,080,000), and is classified as 'Other long-term payables'. The capital lease is bearing 6.5% annual interest. The lease term expires on 31 December 2021, after which the ownership will be transferred to the Company. For a specification of the contractual maturity of 'Other long-term payables' reference is made to Note 34.

(2) Liens

a. The Company has entered into a loan facility agreement with a bank Leumi. In order to secure the Company's liabilities for these bank credits and loans, the Company has provided the bank the following: (i) a registered first degree fixed lien on IT-2004's (the Israeli subsidiary) unissued share capital and goodwill; (ii) a first degree floating lien on IT-2004's assets, including insurance benefits in respect of the assets and rights of any kind which ITIT has or will have in the future; (iii) that the assets of IT-2004 will not be pledged and the lien cannot be transferred without the agreement of the bank; (iv) the Company guaranteed the debt of the Company (v) that certain financial covenants will be fulfilled and maintained. The Company complied with the financial covenants during the year 2012 and as at 31 December 2012.

During the year ended 31 December 2012, IT-2004's (the Israeli subsidiary) signed an agreement with Bank Leumi BM for a new funding facility for a total amount of NIS 170 million (EUR 34.3 million). According to the facility agreement, the Company has provided a guarantee while the Israeli subsidiary is subject to certain covenants which the company meets as of the balance sheet date in order to secure that loan, the company provided to the bank new liens regarding rights in

Note 26 - Commitments, liens and contingent liabilities (cont'd)

(2) Liens (cont'd)

land under lease and rent agreements of in its project in Rishon Lesion, and the outstanding share capital in IT-2004 was pledged in favour of the bank by the Company.

In December 2012, Bank Leumi released the pledge over the outstanding share capital in IT-2004 owned by the Company, and the guarantee of the Company to IT-2004 was terminated.

On February 25, 2013 IT-2004 entered into a Credit Facility agreement with Bank Hapoalim, in an amount of up to NIS 190 million, which was used to refinance the outstanding debt to bank Leumi. IT-2004 provided Bank Hapoalim a registered first degree fixed lien on IT-2004's unissued share capital and goodwill, liens regarding rights in land under lease and rent agreements of in its project in Rishon Lesion, and a floating lien on IT-2004's current and future assets. the Israeli subsidiary is subject to certain covenants.
In addition, IT-2004 pledged a certain cash deposit to secure outstanding bank guarantees issued by Bank Leumi.

b. In order to secure an outstanding loan from a Bulgarian bank of approximately EUR 1.6 million (2011: EUR 2.0 million) a subsidiary company has provided to the bank several commitments such as going concern pledge agreement, trade mark pledge agreement, sponsor support agreement and receivables pledge agreement.

c. In connection with the sale of the real estate in Bulgaria to Israel Theatres Ltd. In 2010 the Company has agreed to refrain from borrowing additional funds if such borrowings would result in Israel Theatres Ltd. on a fully consolidated basis (together with the Company), breaching agreed-upon EBITDA to debt ratios.

d. As part of the Palace Cinemas acquisition in January 2011 as described in Note 7, the Company assumed EUR 6.6 million in existing debt of the acquired companies including existing securities such as pledge over properties, share capital and receivables. The Slovakian subsidiary undertook to meet several financial covenants.

e. As part of the acquisition of Israel theatres real Estate B.V the company received a debt facility from a club of European banks amounting to Euro 210 million. In order to secure the facility the Company has provided the club banks with the following : (i) pledges over the shares of material subsidiaries (ii) pledges over the assets of material subsidiaries, other than Bulgaria assets. (iii) pledges over the main operating bank accounts of cinemas in Poland, Czech republic and Hungary (iv) guaranties from material subsidiaries and (v) the Company has agreed to maintain 80% coverage of its guarantees.

Note 26 - Commitments, liens and contingent liabilities (cont'd)

(3) Contingent liabilities

From time to time, the Group is involved in routine litigation and proceedings during the normal course of business. As at 31 December 2012, the Group is not involved in any litigations or proceedings except for the following:

Cinema City Poland Sp. z.o.o. (CCP), 100% owned by the Company, is the defendant in a claim brought by Związek Autorow I Kompozytorow ('Zaiks'), a Polish collection society representing screenplay authors and authors of other literary and musical works used in audio-visual works that are exhibited in Poland. The Company understands that Zaiks has also brought similar claims against many other major cinema exhibitors and cable TV operators in Poland, some of which, the Company believes, may have settled with Zaiks. The claimant seeks royalties in the amount of approximately EUR 2.0 million plus interest for the period through June 2007 for the use of works by certain of its members in movies exhibited in Poland. Recently, Zaiks filed a motion with the court to settle with CCP for the period through 2009. Although no claims have been raised by Zaiks for the period after June 2007, Zaiks motion to the court for settlement for the period through 2009 makes it more likely that Zaiks will make a claim for additional amounts for the period after 2007. Based on legal advice, the Management Board does not expect the outcome of the claim to have a material effect on the Group's financial position. The Company continues to accrue amounts in connection with this matter.

Note 27 - Revenues

	Financial year	
	2012	2011
	EUR (thousands)	
Theatre sales	**253,343**	243,782
Distribution	**24,931**	21,772
Other cinema-related revenues	**2,379**	1,905
Total revenues	**280,653**	267,459

Note 28 - Operating costs

	Financial year	
	2012	2011
	EUR (thousands)	
Costs of theatre sales	**186,992**	181,614
Distribution costs	**18,404**	17,995
Depreciation and amortisation	**30,555**	25,417
Other cinema-related costs	**698**	637
Total operating costs	**236,649**	225,663

Note 29 – General and administrative expenses

	Financial year	
	2012	2011
	EUR (thousands)	
Personnel and other related costs	**9,877**	9,766
External services	**2,523**	2,307
Management board bonus and supervisory board remuneration	**1,948**	1,716
Total General and administrative expenses	**14,348**	13,789

Note 30 - Financial income/expenses

A. Financial income

	Financial year	
	2012	2011
	EUR (thousands)	
Interest income	**1,165**	574
Currency exchange gains	**965**	60
Total financial income	**2,130**	634

B. Financial expenses

	Financial year	
	2012	2011
	EUR (thousands)	
Interest expenses incurred	**(6,695)**	(4,042)
Interest cost capitalised (1)	**1,116**	815
Currency exchange losses	**(433)**	(847)
Total financial expenses	**(6,012)**	(4,074)

(1) The Company has capitalised interest expenses to the cost of buildings in progress as well as to other fixed assets components before being taken into operation.

Note 31 - Loss on disposals, write-off on other investments and other costs

	Financial year	
	2012	2011
	EUR (thousands)	
Disposition of property and equipment	**317**	201
others	**17**	-
Total loss on disposal	**334**	201

Note 32 - Taxation: deferred tax assets, deferred tax liabilities and income tax benefit/ expense

I. Tax laws applicable to the Group

1. Results of operations for tax purposes of the Company and its Dutch subsidiaries are computed in accordance with Dutch and local tax legislation.
2. Tax rates applicable to the Company and its subsidiaries are as follows:

The subsidiary	Tax rate
Netherlands	25% - (2011 - 25%)
Hungary	10% - (2011 - 10%)
Czech Republic	23% - (2011 - 19%)
Poland	19% - (2011 -19%)
Israel	25% - (2011 - 24%)
Bulgaria	10% - (2011 - 10%)
Romania	16% - (2011 - 16%)
Slovakia	23% - (2011 -19%)
Cyprus	10% - (2011 – 10%)

II. Deferred income taxes

1. Deferred income taxes are primarily provided for all temporary differences between the tax and the accounting basis of assets and liabilities based on the tax rate that is expected to be in effect at the time the deferred income taxes will be realised.

   The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences can be offset or become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on all available information, management believes that all of the deferred income tax assets are realisable and therefore has not provided for valuation allowance.

2. Changes in deferred income taxes in relation to tax assets and liabilities are in respect of the following items:

Deferred income tax included in assets:	31 December	
	2012	**2011**
	EUR (thousands)	
Accrued employee rights	**249**	211
Fixed assets	**274**	(148)
Operating tax loss carry-forwards	**2,435**	1,866
Other	**6**	171
	2,964	2,100

Note 32 - Taxation: deferred tax assets, deferred tax liabilities and income tax benefit/ expense (cont'd)

Deferred income tax included in liabilities:	31 December	
	2012	**2011**
	EUR (thousands)	
Accrued employee rights	**(185)**	(161)
Fixed assets	**4,850**	3,529
Other	**22**	23
	4,687	3,391

The unused tax losses carried forward for which no deferred tax asset is recognised in the Consolidated Statement of Financial Position as at 31 December 2012 amount to EUR 26,687,000 (as at 31 December 2011: EUR 18,645,000).
Temporary differences related to fixed assets for which no deferred tax asset is recognised in the Consolidated Statement of the Financial Position as at 31 December 2012 amount to EUR 23,456,000 (as at 31 December 2011: EUR 9,433,000).

III. Income tax expense in the income statement

Composition:	31 December	
	2012	**2011**
	EUR (thousands)	
Current taxes	**1,486**	1,996
Deferred income taxes	**462**	(2,820)
In respect of previous years	**(170)**	538
Total income tax (benefit)/expense	**1,778**	(286)

Note 32 - Taxation: deferred tax assets, deferred tax liabilities and income tax benefit/ expense (cont'd)

IV. Income tax recognised in other comprehensive income

	Financial year 2012		
	Before tax	Tax (expense)/ benefit	Net of tax
	EUR (thousands)		
Foreign exchange translation differences	**7,179**	**-**	**7,179**
Effective portion in fair value of cash flow hedges	**(474)**	**23**	**(451)**
Total other comprehensive income	**6,705**	**23**	**6,728**

	Financial year 2011		
	Before tax	Tax (expense)/ benefit	Net of tax
	EUR (thousands)		
Foreign exchange translation differences	(13,540)	-	(13,540)
Effective portion in fair value of cash flow hedges	384	(6)	378
Total other comprehensive income	(13,156)	(6)	(13,162)

V. Tax reconciliation

The difference between the amount of tax calculated on income before taxes at the regular tax rate and the tax expenses included in the financial statements is explained as follows:

	Financial year	
	2012	2011
	EUR (thousands)	
Tax calculated at the regular rate – 25% (before Share of profit of equity-accounted investees)	**6,360**	5,272
Adjustment for reduced tax rate in foreign subsidiaries	**(1,862)**	(1,758)
Effect of reduction in tax rates on deferred income taxes (*)	**-**	(2,030)
Non-deductible expenses	**137**	141
Recognition of previously unrecognized tax losses	**(982)**	(122)
Income exempt from taxes (*)	**(2,247)**	(3,373)
Taxes in respect of previous years	**(170)**	538
Other differences	**542**	1,046
Total recognised income tax (benefit)/expense	**1,778**	(286)

* Towards the end of the third quarter of 2011, the Company conducted a process of reorganising its Polish operations, which were regrouped within a closed investment fund registered in Cyprus. The reorganisation in Poland brought organisational benefits and enables tax optimisation when managing the operational companies.

Note 33 - Related-party transactions

Related parties
Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and reporting decisions.

Such relationships include parent-subsidiary relationships:

- entities under common control;
- individuals who, through ownership, have significant influence over the enterprise and close members of their families;
- key management personnel, comprising the members of the Management Board and members of the Supervisory Board.

The Group is controlled by I.T. International Theatres Ltd., incorporated in Israel, which owns 53.89% of the outstanding shares (2011: 53.89%). The remaining 46.11% are held by the public and traded at the Warsaw Stock Exchange. The ultimate parent of the Group is Israel Theatres Ltd., incorporated in Israel. The ultimate controlling parties are Mr Moshe Greidinger and Mr Israel Greidinger, both Managing Directors of the Company.

Transactions with related parties

a. Income/(expenses):

	Financial year	
	2012	**2011**
	EUR (thousands)	
Rental fees	**(573)**	(651)
Management services	**406**	397

All outstanding balances with these related parties are priced on an arm's length basis. None of the balances is secured. As of the beginning of 2013, none of the above mentioned management services are provided any longer.

b. During 2012, Israel Theatres Ltd. (the parent company of ITIT) has leased real estate properties on which of, as December 31, 2012 two (in 2011- three) of the Company's theatres are located to the Company. The annual lease payments for the above properties aggregated to EUR 243,907 (denominated in NIS and linked to the Israeli CPI Index). As part of the acquisition of Israel theatres real Estate B.V (see K below) the company acquired those two real estate properties.

c. Pursuant to the management services agreement between the Company and Israel Theatres Ltd., the Company provided Israel Theatres Ltd. for an indefinite period with certain management services. Management services include office and accounting services through providing Israel Theatres Ltd. with senior personnel and administration of Israel Theatres Ltd.'s business. The management services agreement is for a fixed annual sum of EUR 406,000 (denominated in NIS and linked to the Israeli CPI Index). The agreement was terminated in the beginning of 2013.

Note 33 – Related-party transactions (cont'd)

d. Forum Film Ltd. leased offices and storage space in Herzelia from Israel Theatres Ltd. for a consideration of EUR 8,917 (NIS 44,165) per month. Israel Theatres Ltd. leases offices in Herzelia to IT-2004 for a consideration of EUR 10,602 (NIS 52,509) per month.

e. In December 2003, employment agreements with Mr Moshe Greidinger, Mr Israel Greidinger and Mr Amos Weltsch ('Managing Directors'), signed originally with ITIT in 1998, were assigned to the Company. The fulfilment of the Company's obligation under the agreements will be performed by the Company, or by its Israeli subsidiaries.

In accordance with the said agreement, the aggregate gross monthly remuneration for the Managing Directors amounts to EUR 42,000 per month (denominated in NIS and linked to the Israeli Consumer Price Index), which, together with related employee benefits, will amount to EUR 68,000 per month.

In addition, the Managing Directors are entitled to an annual bonus aggregating to 6.65% of the Company's consolidated profits before tax for any fiscal year. The above mentioned Managing Directors undertook to be employed by the Company for an indefinite period, with a six month notice of termination, and to refrain from competing with the Company's business for a period of 12 months following termination of their employment with the Company.

On 24 November 2006, the General Meeting of Shareholders of the Company approved a new remuneration policy which confirmed the entitlement of the members of the Management Board to receive a monthly base salary and annual participation in a cash bonus pool designated for the members of the Management Board equal to 7% of the Company's pre-tax profit before the bonus. In addition, under the same remuneration policy, each member of the Management Board is entitled to a car, contribution to a severance fund as well as to statutory provident fund, a travel allowance and reimbursement of reasonable business expenses.

Also on 26 November 2006, the General Meeting of Shareholders of the Company approved a long-term incentive plan (the 'Plan'). The persons eligible for participation in the Plan are the employees of the Group, including the members of the Management Board.
Under the Plan, both option rights to acquire shares in the Company and cash bonuses may be granted to the participants. In April 2012, Mr Amos Weltsch, member of the Management Board of the Company, was granted 650,000 options as a part of his remuneration package, each entitling him to subscribe for one share in the Company at the issue price of PLN 29 per share. The issue price is based on the six-month average share price of the shares on the Company on the Warsaw Stock Exchange in the period between 31 August 2011 and 29 February 2012.
The options granted to Mr Weltsch will vest in 47 equal monthly tranches of 13,542 options, each on the last day of each month in the period from 30 April 2012 to 29 February 2016, with an additional tranche of 13,526 options vesting on 31 March 2016. Mr Weltsch may exercise the options vested to him in each of the tranches on multiple occasions within two years from the date the given tranche of share options was vested. As part of the plan, the annual bonus was decreased to 6.65%.
The granting of the options was approved by the shareholders of the Company during the Annual General Meeting of the Company held on 21 June 2012.
During the financial year 2011, no share options have been granted to members of the Management Board.

Note 33 - Related party transactions (cont'd)

The Managing Directors of the Company received remuneration totalling EUR 3,118,000 (2011: EUR 2,388,000). The members of the Supervisory Board received fees totalling EUR 135,000 (2011: EUR 128,000). The total remuneration is included in general and administrative expenses. The members of the Management and Supervisory Board did not receive any option rights to acquire shares in the Company during the financial year 2012 except as described in Note 18, during the financial year 2012, 650,000 options were granted to Mr Weltsch.
The remuneration for the Managing Directors is divided between the Managing Directors as follows:

	Financial year	
	2012	**2011**
	EUR (thousands)	
Mr. Moshe Greidinger, General director:		
Salary and other short-term benefits	**283**	282
Post-employment benefits	**16**	15
Management bonus	**954**	794
	1,253	1,091
Mr. Amos Weltsch ,Operational director:		
Salary and other short-term benefits	**245**	235
Share based payments	**489**	-
Post-employment benefits	**13**	13
Management bonus	**382**	397
	1,129	645
Mr. Israel Greidinger, Financial director:		
Salary and other short-term benefits	**246**	242
Post-employment benefits	**13**	13
Management bonus	**477**	397
	736	652
Total	**3,118**	2,388

Total compensation to key management personnel amounts to EUR 3,253,000 (2011: EUR 2,516,000), EUR 3,211,000 relates to short-term employee benefits (2011: EUR 2,475,000), EUR 42,000 to post-employments benefits (2011: EUR 41,000). The remuneration for the Supervisory Board is divided between the members of the Supervisory Board as follows:

	Financial year	
	2012	**2011**
	EUR (thousands)	
Mr. Coleman Kenneth Greidinger	**-**	10
Mr. Scott S. Rosenblum	**28**	28
Mrs. Caroline Twist	**21**	19
Mr. Frank Pierce	**21**	20
Mr. Peter Weishut	**22**	22
Mr. Yair Shilhav	**43**	29
Total	**135**	128

Note 33 - Related party transactions (cont'd)

Forum Film Ltd., a subsidiary, participates in the aforementioned remunerations to Messrs Moshe Greidinger and Israel Greidinger at the rate of 33% thereof and fully covers the portion of the above mentioned bonuses that relate to its own activities.

f. The Greidinger family has indirect control of the Company's majority shareholder, ITIT, through its majority shareholding in Israel Theatres Ltd. More than 88% of the shares in Israel Theatres Ltd. are held indirectly by Mr Israel Greidinger, Mr Moshe Greidinger and their relatives.

g. The Company has entered into an indemnification agreement with each executive officer and director. These agreements endeavour to fully indemnify and limit the personal liability of the officers and directors, in certain circumstances, both to the Company and to its shareholders, for acts or omissions by them in their official capacity. The Company has obtained officers' and directors' liability insurance.

h. The Company is a subsidiary of ITIT, which as aforesaid is a wholly-owned subsidiary of Israel Theatres Ltd. The Israel Theatres Group is comprised of all the entities directly or indirectly owned in whole or part by Israel Theatres Ltd. The Company is the Israel Theatres Group subsidiary that conducts all of the Group's cinema-related activities, which includes film and DVD distribution, screen advertising and real estate development (when the real estate activity is at least partly associated with a cinema project). Until December 2012, Israel Theatres Ltd. was involved directly and through other subsidiaries in various non-cinema-related activities, including real estate activities in Israel and in Central and Eastern Europe not related to movie theatres.
As of 31 December 2012, after the acquisition of Israel theatres real Estate by the Company, ITIT is acting solely as holding company.

i. Israel Theatres Ltd., ITIT and its directors and principal officers undertook not to compete, whether directly or indirectly, with the Company's business in the film exhibition, distribution, video rental and real-estate fields. The length of this undertaking is for as long as they are directors or officers in either of the companies, or beneficially own a controlling interest in the Company. The agreement specifically states that Israel Theatres Ltd. and ITIT may not engage in the development, sale or lease of property for theatrical or video rental use without the prior written consent of the Company, unless it is to be used by the Company.

j. During the second quarter of 2012, the Company completed its acquisition of the non-controlling interests in Norma Film Ltd. (Forum Film Israel). The non-controlling interests were acquired for EUR 1,755,000 from I.M. Greidinger Ltd., an Israeli company owned by Messrs Moshe Greidinger and Israel Greidinger, both Managing Directors and (indirectly) shareholders of the Company. As a result of the transaction, Norma Film Ltd. is now a fully owned subsidiary of the Company.

In accordance with IFRS, the Company has recognised directly in equity the difference between the purchase price of the non-controlling interests and the adjustments to the carrying amounts of Norma Film Ltd following the acquisition of the non-controlling interests. As a result, an amount of EUR 3,724,000 has been charged to equity (under retained earnings).

As the acquisition of the non-controlling interests qualifies as a transaction with a related party – I.M. Greidinger Ltd., being controlled by major (indirect) shareholders and Managing Directors of the Company – and also qualifies as a transaction constituting a conflict of interest with the Management Board as described under Principle II.3 of the Dutch Corporate Governance Code, the Supervisory Board formed a special committee of independent Supervisory Directors of the

Note 33 – Related party transactions (cont'd)

Company to review the proposed terms of the transaction. In order to ensure that the transaction is at arm's length and to ensure compliance with best practice provisions of the Dutch Governance Code in respect of conflicts of interest, this committee reviewed and approved the transaction and where necessary represented the Company in the transaction.

k. On December 19, 2012, the Company signed and completed an agreement with Israel Theatres Real Estate Holding B.V. (a subsidiary of Israel Theatres Ltd. ('IT') to acquire all of the shares in Israel Theatres Real Estate BV ('ITRE'). ITRE is a holding company which owns all of the shares in real estate development companies holding the following assets: Mall of Rousse and other plots of land in Bulgaria, an office building in Herzliya and 5 other properties in Israel and plots of land designated to develop an amusement park in Poland. In addition, ITRE is the economic beneficiary of a 32.11%-stake in the WSE listed Ronson Europe NV through a jointly controlled general partnership formed under Dutch law between its subsidiary, ITR 2012 B.V. and ITR Dori B.V.. The general partners jointly exercise the voting rights attached to 64.22% of the shares in Ronson Europe NV..

The acquired assets were valued at an aggregate amount of EUR 143.8 million pursuant to independent third party valuations obtained by the Supervisory Board of the Company. The purchase price for the shares in ITRE amounted to an aggregate of EUR 33.1 million For the value of the acquired investment properties reference is made to the investment property note 10.
The value of the acquired share in Ronson is based on the net asset value of Ronson for 32.11% as per 30 September 2012 as determined by an independent third party valuator.
The Company assumed the(indirect) bank debt of ITRE of EUR 98.7 million and repaid the shareholder loan of ITRE of EUR 12.0 million. Historic loans granted by the Company to Israel Theatres Ltd for a total of EUR 32.4 million have been settled and offset with the payment of this transaction. Following completion of this transaction, IT became a holding entity with no operations and the Company now operates two business divisions: cinema operations and real estate operations.

Management of the Company believes that the return to unified cinema and real estate ownership and operations by the Company will position the Company in a competitively stronger position with regard to its cinema operations.
By placing together the new entertainment related projects acquired from IT and the new, successful real estate projects of the Company, the Company can achieve considerable synergies and avoid future potential conflict of interests within the Group. In addition the timing of this acquisition of the real estate assets provides good potential for growth and the Company believes it will bring significant benefits in the coming years The transaction was approved by an independent committee of the Company's Supervisory Board after several meetings and discussions with management and external advisors inter alia dealing with strategic fit of the transaction, risk assessment, due diligence, independent valuation, identifying and dealing with conflicts of interest.

Concurrently with the acquisition of ITRE, the Company closed a new club bank financing agreement with three leading European banks BZ WBK, HSBC and ING Bank Śląski for a total EUR 210 million includes a EUR 70 million revolving credit line. In February 2012, an additional leading European bank, BNP Paribas, joined the new club bank financing group. The term of the facility is 6 years. The facility may be used in EUR and PLN and have been secured mainly by pledges of shares in the Company's main subsidiaries, investment certificates and mortgages on its major real estate assets. The credit agreement provides for standard covenants, which the company obliged to meet from the period that will start on June 30, 2013, including those relating to a pre-determined level of leverage (net leverage covenant) and margin. It also includes a change of control clause in case the Greidinger family's holdings in the Company decrease below 30%

Note 33 – Related party transactions (cont'd)

or another investor obtains control over the Company.
The new club financing agreement was used by the Company to finance the ITRE acquisition, to refinance all other Group credit facilities (including the debt of the acquired business) and for other general corporate purposes. The only other group financing that remains in place following the new club financing is a local Israeli financing of approx. EUR 40 million

Note 34 - Financial instruments and financial risk management

The Group's principal financial instruments, other than derivatives and cash and cash equivalents, comprise bank loans and short-term bank credits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.
The Group also enters into derivative transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the financial years 2012 and 2011, the Group's policy that no trading in financial instruments shall be undertaken.
The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board reviews and agrees policies for managing each of these risks and they are summarised below. The Management Board also monitors the market price risk arising from all financial instruments. The Group's accounting policies in relation to derivatives are set out in Note 4 (K).

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(1) Price risk
The Group's exposure to marketable securities price risk is not significant because of the very small amount invested in marketable securities relative to the Group's total assets.

(1) Interest rate risk
The Company closed a new club bank financing agreement in December 2012, a six-year facility agreement consisting of a EUR 140 million term loan (split into EUR 102 million and EUR 38 millions in Polish Zloty) and additionally a EUR 70 million revolving credit facility (split into EUR 51 million and EUR 19 millions in Polish Zloty). Early 2013, the Company concluded interest rate swap agreements for an amount of EUR 92.4 million (representing 66% of the term loan) for a period of two years in accordance with the terms of the facility agreement, on a weighted average fixed rate of 4.06 % whilst the revolving credit facility and the rest of the term loan attract floating interest rates of EURIIBOR + 3.5% for amounts denominated in euro and WIBOR + 3.5% for amounts denominated in Polish złoty.
The Company has taken steps to ensure that the interest rate swap is accounted for as a hedge and that changes in its valuation are recognized through reserves. See below.

Note 34 - Financial instruments and financial risk management (cont'd)

Market risk (cont'd)

(3) Foreign exchange risk

The Group incurs foreign currency risk on future commercial transactions and recognised assets and liabilities that are denominated in a currency other than the relevant local functional currencies: the Bulgarian leva, the Czech crown, the Hungarian forint, the Polish zloty and the New Israeli shekel, as well as the euro in Slovakia and at parent company level. The Group monitors the exposure to currencies other than the relevant functional currency at an entity-by-entity level. from time to time. the Group entered into forward exchange contracts in order to hedge some of its US dollar and euro expenses (see below).

If the following rate movements would occur, then the effect on profit/(loss) would be as presented in the table below:

(a) the euro versus the Czech crown, the Hungarian forint, the Romanian new lei or the Polish zloty by +/- 6.56%;
(b) the euro versus the US dollar by +/- 9.3%;
(c) the euro versus the New Israeli shekel by +/- 5.3%;
(d) the US dollar versus the Czech crown, the Hungarian forint, the Romanian new lei or the Polish zloty by +/- 14.1%;
(e) the US dollar versus the New Israeli shekel by +/- 9.0%.

The shifts in exchange rates above are based on historic volatility. Since the exchange rate of the Bulgarian leva versus the euro has been unchanged, no shift in exchange rate of the euro versus the Bulgarian leva is assumed.

Total effect on profit/(loss)	**Financial year 2012**				
	EUR vs. CZK, HUF,RON or PLN	**EUR vs. USD**	**EUR vs. NIS**	**USD vs. CZK, HUF,RON or PLN**	**USD vs. NIS**
	EUR (thousands)				
Total assets/(liabilities)	**(2,163)**	**13**	**99**	**173**	**42**
Reasonable shift	**6.56%**	**9.30%**	**5.30%**	**14.10%**	**8.98%**
Total effect on profit of positive movements	**(98.6)**	**4.1**	**10.0**	**38.9**	**1.9**
Total effect on profit of negative movements	**98.6**	**(4.1)**	**(10.0)**	**(38.9)**	**(1.9%)**

Total effect on profit/(loss)	**Financial year 2011**				
	EUR vs. CZK, HUF,RON or PLN	**EUR vs. USD**	**EUR vs. NIS**	**USD vs. CZK, HUF,RON or PLN**	**USD vs. NIS**
	EUR (thousands)				
Total assets/(liabilities)	(844)	76	277	379	-
Reasonable shift	6.57%	10.96%	8.35%	14.36%	7.32%
Total effect on profit of positive movements	(453.36)	23.5	17.1	357.73	(19.8)
Total effect on profit of negative movements	453.36	(23.5)	(17.1)	(357.73)	19.8

Note 34 - Financial instruments and financial risk management (cont'd)

Market risk (cont'd)

(4)Taxation risk

The Group companies are subject to taxation in the countries in which they operate. Partly due to the credit crises, governments in Europe are short of monies and are seeking to increase tax revenues. It is difficult to assess whether the Company will have to pay more taxes due to changes made to the tax systems in the countries where the Company operates, but it cannot be excluded. Ongoing financial instability and political changes create uncertainty and it is not possible to rule out potential changes in taxation which could have an impact on future financial performance.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and receivables. The Group places its cash and cash equivalents and short-term investments in financial institutions with high credit ratings. Management does not expect any counterparty to fail to meet its obligations. Concentrations of credit risk with respect to trade receivables are relatively low due to the relatively large number of clients comprising the Group's clients list.

The carrying amount of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December	
	2012	**2011**
	EUR (thousands)	
Trade receivables	**20,075**	14,758
Receivables from related parties	**-**	16,182
Other receivables**	**2,467**	4,055
Non-marketable securities held for sale	**7**	24
Cash and cash equivalents*	**23,055**	7,049
Short-term bank deposits	**3,083**	340
Foreign currency exchange contracts	**-**	644
	48,687	43,052

* The rest of 'Cash and cash equivalents' is cash at hand.
** Reclassified for comparison purposes.

Note 34 - Financial instruments and financial risk management (cont'd)

Credit risk (cont'd)

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	31 December	
	2012	**2011**
	EUR (thousands)	
Trade receivables:		
Counterparty without / with unknown external credit rating		
Group 1*	**17,022**	12,715
Group 2**	**2,961**	1,667
Group 3***	**92**	376
Total Trade receivables	**20,075**	14,758
Cash at banks and short-term bank deposits		
AAA	**22,633**	6,382
AA	**422**	448
A	**-**	219
Total Cash at bank****	**23,055**	7,049

*	Group 1 – new receivables (less than 6 months).
**	Group 2 – existing receivables (more than 6 months) with no defaults in the past.
***	Group 3 – existing receivables (more than 6 months) with some defaults in the past. All defaults were fully recovered.
****	The rest of 'Cash and cash equivalents' is cash at hand

Allowances for doubtful accounts remained on a similar level (EUR 172,000 and EUR 126,000 for 31 December 2012 and 2011, respectively).

Note 34 - Financial instruments and financial risk management (cont'd)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines.
The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	As at 31 December 2012			
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	EUR (thousands)			
Borrowings	**19,117**	**18,108**	**71,099**	**114,870**
Other long-term payables	**113**	**113**	**340**	**1,540**
Current liabilities*	**50,341**	**17**	**3**	**34**

	As at 31 December 2011			
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	EUR (thousands)			
Borrowings	13,054	11,274	18,915	6,305
Other long-term payables	146	176	438	499
Current liabilities*	39,157	4	4	5

* Excluding short-term borrowings, deferred income and income received in advance.

Derivative financial instruments

As at 31 December 2011, the Company had hedged some of its US dollar and euro expenses through 2012 and 2011 in respect of its Polish, Hungarian and Czech theatre operations, against the Polish zloty, the Hungarian forint and the Czech crown, respectively. As at 31 December 2012, the Company had not entered into any new forward foreign exchange contract.
Changes in the fair value of contracts that are effective hedges are recognised directly into other comprehensive income and accumulated in equity in a separate hedge reserve. The Company designates these contracts to hedge future cash flow fluctuations deriving from differences between the euro and the US dollar against local currencies as described above. Amounts are released from the hedge reserve to profit or loss when the future transaction is settled.

Note 34 - Financial instruments and financial risk management (cont'd)

Derivative financial instruments (cont'd)

As described in Note 33, the Company closed a new club bank financing agreement in December 2012, a six-year facility agreement consisting of a EUR 140 million term loan (split into EUR 102 million and EUR 38 millions in Polish Zloty) and additionally a EUR 70 million revolving credit facility (split into EUR 51 million and EUR 19 millions in Polish Zl*oty). Early 2013, the Company concluded interest rate swap agreements for an amount of EUR 92.4 million (representing 66% of the term loan) for a period of two years in accordance with the terms of the facility agreement, on a weighted average fixed rate of 4.06 % whilst the revolving credit facility and the rest of the term loan attract floating interest rates of EURIIBOR + 3.5% for amounts denominated in euro and WIBOR + 3.5% for amounts denominated in Polish zloty.

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Consolidated Statement of Financial Position, are as follows:

	As at 31 December 2012		As at 31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	EUR (thousands)			
Financial assets				
Trade accounts receivable	**20,075**	**20,075**	14,758	14,758
Receivables from related parties	-	-	16,182	16,182
Income taxes receivable	**335**	**335**	604	604
Receivable from government institutions	**1,308**	**1,308**	2,599	2,599
Other receivables *	**1,159**	**1,159**	1,456	1,456
Marketable securities	**7**	**7**	24	24
Cash and cash equivalents	**26,666**	**26,666**	9,277	9,277
Short-term bank deposits	**3,083**	**3,083**	340	340
Foreign currency exchange contracts	-	-	644	644
Total financial assets	**52,633**	**52,633**	45,884	45,884
Financial liabilities				
Bank loans	**(223,194)**	**(223,194)**	(49,548)	(49,548)
Short-term bank credits	**(3,625)**	**(3,625)**	(17,277)	(17,277)
Financial leases	**(928)**	**(928)**	(1,080)	(1,080)
Other long-term liabilities	**(1,178)**	**(1,178)**	(179)	(179)
Trade payables	**(19,070)**	**(19,070)**	(17,414)	(17,414)
Payables to related parties	-	-	(210)	(210)
Investment creditors	**(1,077)**	**(1,077)**	(2,628)	(2,628)
Accrued expenses	**(22,517)**	**(22,517)**	(12,540)	(12,540)
Payable to government institutions	**(2,203)**	**(2,203)**	(1,002)	(1,002)
Other payables (including income tax payables)*	**(2,897)**	**(2,897)**	(2,975)	(2,975)
Total financial liabilities	**(276,689)**	**(276,689)**	(104,853)	(104,853)

* Reclassified for comparison purposes

Note 34 - Financial instruments and financial risk management (cont'd)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within 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 inputs).

	As at 31 December 2012		
	Level 1	**Level 2**	**Total**
		EUR (thousands)	
Marketable securities	**7**	**-**	**7**
Cash and cash equivalent *	**23,055**	**-**	**23,035**
Derivative financial assets (Foreign currency exchange contracts)	**-**	**-**	**-**
	23,062	**-**	**23,062**

	As at 31 December 2011		
	Level 1	**Level 2**	**Total**
		EUR (thousands)	
Marketable securities	24	-	24
Cash and cash equivalent *	7,049	-	7,049
Derivative financial assets (Foreign currency exchange contracts)	-	644	644
	7,073	644	7,717

* Not including cash at hand

During 2012, there have been no transfers between Level 1 and Level 2 (2011: no transfers in either direction).

Note 35 - Capital management

When managing capital, it is the Group's objective to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the profit appropriation, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio and leverage. No external capital requirements existed as per 31 December 2012 and 31 December 2011.

The gearing ratio is calculated as net debt divided by total equity attributable to equity holders. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the Consolidated Statement of Financial Position) less cash and cash equivalents. Leverage is calculated as net debt divided by total capital employed. Total capital employed is calculated as 'equity attributable to equity holders' as shown in the Consolidated Statement of Financial Position plus net debt financing assets in operation.
The gearing ratios and leverage at 31 December 2012 and 2011 were as follows:

	31 December	
	2012	**2011**
	EUR (thousands)	
Bank debt:		
Long-term borrowings, including current portion	**223,194**	49,548
Short-term bank credit	**3,625**	17,277
Total debt	**226,819**	66,825
Cash and cash equivalents	**(26,666)**	(9,277)
Net debt	**200,153**	57,548
Construction in progress (see Note 9)	**(6,047)**	(23,046)
Lands	**(24,101)**	-
Cinema equipment not operated yet (see Note 9)	**(426)**	(134)
Net debt financing assets in operation	**169,579**	34,368
Total equity	**257,674**	229,303
Total capital employed	**427,253**	263,671
Gearing ratio	**77.7%**	25.1%
Leverage	**46.8%**	21.8%

Note 36 - Linkage terms of monetary items

	31 December 2012			
	In or linked to EUR	In or linked to PLN	In or linked to foreign currencies	Total
	EUR (thousands)			
Assets				
Cash and cash equivalents	**3,728**	**11,336**	**11,602**	**26,666**
Short-term bank deposits - collateralised	**3,083**	**-**	**-**	**3,083**
Trade accounts receivable	**1,114**	**7,407**	**11,554**	**20,075**
Income tax receivable	**132**	**-**	**203**	**335**
Other accounts receivable	**1,132**	**625**	**710**	**2,467**
Marketable securities	**-**	**-**	**7**	**7**
	9,189	**19,368**	**24,076**	**52,633**
Liabilities				
Short-term bank credit	**-**	**2,202**	**1,423**	**3,625**
Trade accounts payable	**1,430**	**5,940**	**11,700**	**19,070**
Employee and payroll accruals	**89**	**282**	**2,260**	**2,631**
Other accounts payable (including income tax payables)	**2,979**	**8,714**	**17,001**	**28,694**
Long-term loans (including current portion)	**136,632**	**52,013**	**34,549**	**223,194**
Accrued employee rights upon retirement	**-**	**-**	**1,061**	**1,061**
	141,130	**69,151**	**67,994**	**278,275**

	31 December 2011			
	In or linked to EUR	In or linked to PLN	In or linked to foreign currencies	Total
	EUR (thousands)			
Assets				
Cash and cash equivalents	2,458	2,784	4,035	9,277
Short-term bank deposits - collateralised	340	-	-	340
Trade accounts receivable	1,376	5,366	8,016	14,758
Income tax receivable	247	-	357	604
Other accounts receivable*	918	979	2,158	4,055
Receivable from related parties	15,242	-	940	16,182
Marketable securities	-	-	24	24
Foreign currency exchange contracts	-	159	485	644
	20,581	9,288	16,015	45,884
Liabilities				
Short-term bank credit	-	7,080	10,197	17,277
Trade accounts payable	2,601	6,698	8,115	17,414
Employee and payroll accruals	81	187	2,133	2,401
Other accounts payable (including income tax payables) *	1,078	6,247	11,820	19,145
Payable to related parties	-	-	210	210
Long-term loans (including current portion)	16,860	28,996	3,692	49,548
Accrued employee rights upon retirement	-	-	849	849
	20,620	49,208	37,016	106,844

* Reclassified for comparison purposes

Note 37 - Segment reporting

The Group's operations in Israel and Central Europe are organised under the reportable segments, as shown below, which are the Group's major business segments. The strategic business units offer different products and services because they require different processes and marketing strategies. For each of the strategic business units, management reviews internal management reports on at least a quarterly basis. The following summarises the operations in each of the Group's reportable segments:

- Theatre operations.
- Distribution – Distribution of movies.
- Other – this includes the Company's real estate activities.

Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, finance costs, finance income and income taxes are managed on a group basis and are not allocated to operating segments.
Inter-segment pricing is determined on an arm's length basis.

Operating segments

	Financial year 2012				
	EUR (thousands)				
	Theatre operations	**Distribution**	**Other**	**Eliminations**	**Consolidated**
Revenues					
External sales	**253,343**	**24,931**	**2,379**	**-**	**280,653**
Inter-segment sales	**-**	**18,428**		**(18,428)**	**-**
Total revenues	**253,343**	**43,359**	**2,379**	**(18,428)**	**280,653**
Results					
Segment result before depreciation, amortisation & impairment write-downs	**54,203**	**4,824**	**1,184**	**-**	**60,211**
Depreciation, amortisation & impairment write-downs	**27,598**	**2,824**	**133**	**-**	**30,555**
Segment result	**26,605**	**2,000**	**1,051**	**-**	**29,656**
Financial income					**2,130**
Financial expenses					**(6,012)**
Loss on disposals					**(334)**
Income tax expenses					**(1,778)**
Share of profit of equity-accounted investees (net of tax)					**1,368**
Net income					**25,030**

	31 December 2012				
	EUR (thousands)				
	Theatre operations	**Distribution**	**Other**	**Unallocated***	**Consolidated**
Segment assets	**346,453**	**19,089**	**176,919**	**2,964**	**545,425**
Segment liabilities	**36,558**	**12,380**	**5,951**	**231,506**	**286,395**
Capital expenditure and acquisitions	**59,979**	**7,734**	**146,158**	**-**	**213,871**

* includes loan from banks and deferred tax assets and liabilities

Note 37 - Segment reporting (cont'd)

	Financial year 2011 EUR (thousands)				
	Theatre operations	**Distribution**	**Other**	**Eliminations**	**Consolidated**
Revenues					
External sales	243,782	21,772	1,905	-	267,459
Inter-segment sales	50	13,173	-	(13,223)	-
Total revenues	243,832	34,945	1,905	(13,223)	267,459
Results					
Segment result before depreciation, amortisation & impairment write-downs	47,487	1,977	682	-	50,146
Depreciation, amortisation & impairment write-downs	24,211	1,151	55	-	25,417
Segment result	23,276	826	627	-	24,729
Financial income					634
Financial expenses					(4,074)
Loss on disposals					(201)
Income tax benefit					286
Net income					21,374

	31 December 2011 EUR (thousands)				
	Theatre operations	**Distribution**	**Other**	**Unallocated ***	**Consolidated**
Segment assets	310,770	9,768	17,604	2,100	340,242
Segment liabilities	38,057	4,285	452	70,216	113,010
Capital expenditure	54,441	4,020	-	-	58,461

* includes loan from banks and deferred tax assets and liabilities

Note 37- Segment reporting (cont'd)

In addition to the information on business segments based on the structure of the Group, the figures below present information for geographical areas. Determination of geographical segments is based on location of assets and is identical to customer location.

	31 December 2012						
	EUR (thousands)						
	Poland	**Israel**	**Hungary**	**Bulgaria**	**Other**	**Unallocated**	**Consolidated**
Revenues							
External sales	**109,512**	**54,016**	**41,524**	**10,412**	**65,189**	**-**	**280,653**
Non-current assets							
Segment assets	**180,298**	**106,167**	**26,217**	**89,200**	**77,490**	**2,964**	**482,336**
Capital expenditure and acquisitions	**61,569**	**56,869**	**4,200**	**79,651**	**11,582**	**-**	**213,871**

	31 December 2011						
	EUR (thousands)						
	Poland	**Israel**	**Hungary**	**Bulgaria**	**Other**	**Unallocated**	**Consolidated**
Revenues							
External sales	115,451	46,766	38,709	9,089	57,444	-	267,459
Non-current assets							
Segment assets	115,793	53,461	23,464	10,634	88,866	2,100	294,318
Capital expenditure	9,957	17,190	11,265	2,369	17,680	-	58,461

Note 38 - Personnel

Personnel costs are specified as follows:

	31 December	
	2012	2011
	EUR (thousands)	
Salaries and wages	**26,468**	25,200
Pension costs	**1,597**	1,611
Other social charges	**3,758**	4,149
Share-based payments under the share option plan (see Note 18(d))	**489**	16
Total personnel costs	**32,312**	30,976

For 2012 and 2011, the pension costs comprise defined contribution expenses only.
The increase in the Personnel costs is mainly due to the increase of employees due to the new cinemas opened in 2012 and 2011.

The average number of personnel, in full-time equivalents, employed by the Company and its subsidiaries and joint ventures during the year 2012 was 3,171 (financial year 2011: 3,094). A geographical allocation of the average number of personnel is as follows:

	31 December	
	2012	2011
Israel	**342**	325
Poland	**1,260**	1,229
Hungary	**518**	468
Czech Republic	**320**	348
Other Central Europe*	**731**	724
Total average number of personnel	**3,171**	3,094

* Including Bulgaria, Slovakia and Romania.

Note 39 - Details of corporations in the Group

	31 December 2012*			
	Company's (in)direct voting rights	**Company's equity share**	**Consolidation**	**Country of incorporation**
	%	%	%	
I.T. International Theatres 2004 Ltd.	100%	100%	Full	(6)
I.T. Magyar Cinemas Kft	100%	100%	Full	(2)
Cinema City Finance B.V.	100%	100%	Full	(1)
Cinema City Poland CC Sp.Zoo S.K.A	100%	100%	Full	(4)
Star Sp.Zoo	100%	100%	Full	(4)
Stars Sp.Zoo	100%	100%	Full	(4)
Janki properties Poland Sp. Z.o.o.	100%	100%	Full	(4)
IT Development 2003 CC Sp. Z.o.o.. S.K.A	100%	100%	Full	(4)
Cinema City Czech S.R.O	100%	100%	Full	(3)
Forum Film Czech s.r.o.	100%	100%	Full	(3)
New Age Media CC Sp. Z.o.o. S.K.A	100%	100%	Full	(4)
Forum Film Poland CC Sp. Z.o.o. S.K.A	100%	100%	Full	(4)
All Job Poland CC Sp. Z.o.o. S.K.A	100%	100%	Full	(4)
Cinema City Poland Sp. Z.o.o. CC spolka komandytowa	100%	100%	Full	(4)
Forum 40 Fundus Inwestycyjny Zamkniety	100%	100%	Full	(4)
Norma Film Ltd.	100%	100%	Full	(6)
Forum Film Ltd.	100%	100%	Full	(6)
Ya'af - Giant Video Library Network Ltd	100%	100%	Full	(6)
Ya'af – Automatic Video Machines Ltd.	100%	100%	Full	(6)
Kafan et Anak limited partnership**	25%	15%	Proportionate	(6)
Mabat Ltd.	100%	100%	Full	(6)
Teleticket Ltd.	100%	100%	Full	(6)
Cinema Plus Ltd.	100%	100%	Full	(6)
Cinema City Bulgaria EOOD	100%	100%	Full	(5)
Forum Film Bulgaria EOOD	100%	100%	Full	(5)
Forum Home Entertainment Czech s.r.o	100%	100%	Full	(3)
New Age Cinema Kft	100%	100%	Full	(2)
Forum Hungary Film Distribution Kft	100%	100%	Full	(2)
Cinema City Romania SRL	100%	100%	Full	(7)
Forum Film Romania SRL	100%	100%	Full	(7)
New Age Media Romania SRL	100%	100%	Full	(7)
Palace Cinemas Hungary Kft	100%	100%	Full	(2)
Cinema City Slovakia s.r.o	100%	100%	Full	(8)
Forum Film Slovakia s.r.o.	100%	100%	Full	(8)
Seracus Ltd.	100%	100%	Full	(9)
Cinema City Holding B.V.	100%	100%	Full	(1)

(1) Dutch corporation.
(2) Hungarian corporation.
(3) Czech corporation.
(4) Polish corporation.
(5) Bulgarian corporation.
(6) Israeli corporation.
(7) Romanian corporation.
(8) Slovakian corporation.
(9) Cypriote corporation.

* *The details of corporations during the financial year ended 31 December 2011 were similar to the details of corporations as at 31 December 2012 as shown above, except for changes during the financial year 2012 disclosed in Note 6.*

Note 39 - Details of corporations in the Group (cont'd)

	31 December 2012*			
	Company's (in)direct voting rights	Company's equity share	Consolidation	Country of incorporation
	%	%	%	
Israel Theatres Real Estate B.V.	100%	100%	Full	(1)
Global Parks Holding B.V.	100%	100%	Full	(1)
Global Parks Building Sp .Z o.o.	100%	100%	Full	(4)
Global Parks Continental Sp. Z o.o.	100%	100%	Full	(4)
Global Parks Poland Sp. Z o.o.	100%	100%	Full	(4)
I.T.R. 2012 B.V.	100%	100%	Full	(1)
Rav Chen Real Estate Ltd.	100%	100%	Full	(6)
Theatraot Parking Ltd.	100%	100%	Full	(6)
Theatraot Management Ltd.	100%	100%	Full	(6)
M.O. Rousse AD	100%	100%	Full	(5)
RESB EOOD	100%	100%	Full	(5)
Park Tower EOOD	100%	100%	Full	(5)
M.O. Stara Zagora EOOD **	55%	55%	Full	(5)
MOR Management EOOD	100%	100%	Full	(5)

(1) Dutch corporation. (3) Czech corporation. (5) Bulgarian corporation. (7) Romanian corporation.
(2) Hungarian corporation. (4) Polish corporation. (6) Israeli corporation. (8) Slovakian corporation.
(9) Cypriote corporation.

* *The details of corporations during the financial year ended 31 December 2011 were similar to the details of corporations as at 31 December 2012 as shown above, except for changes during the financial year 2012 disclosed in Note 6.*

** *the non controlling interests in the balance sheet is comprised only from this entity.*

Note 40 - Subsequent events

None

Signatories to the financial statements

Rotterdam, 14 March 2013

The Management Board

Moshe Greidinger	Amos Weltsch	Israel Greidinger

Supervisory Board

Scott S. Rosenblum	Caroline Twist	Frank Pierce
Peter Weishut	Yair Shilhav	

Company Statement of Financial Position
(before appropriation of the result)

	Note	31 December 2012	2011
		EUR (thousands)	
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	*3*	**8,860**	8,905
Financial fixed assets			
Deferred tax asset	*10*	**1,201**	1,201
Investment in subsidiaries and associates	*5*	**244,361**	177,688
Total non-current assets		**254,422**	187,794
CURRENT ASSETS			
Receivables			
Receivable from subsidiaries	14	**30,764**	59,753
Trade account receivables		**-**	500
Receivable from related parties		**-**	100
Income taxes receivable		**71**	100
Other accounts receivable and prepaid items		**324**	535
Liquid funds			
Cash and cash equivalents		**2,909**	410
Total current assets		**34,068**	61,398
TOTAL ASSETS		**288,490**	249,192
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	*6*		
Share capital		**512**	512
Share premium reserve		**92,144**	92,144
Accumulated currency translation adjustments		**(3,994)**	(11,272)
Hedge reserve		**-**	451
Retained earnings		**144,233**	126,543
Net profit for the year		**24,779**	20,925
Total shareholders' equity		**257,674**	229,303
CURRENT LIABILITIES			
Trade accounts payable		**171**	177
Payable to subsidiaries	14	**25,561**	19,025
Other accounts payable		**5,084**	687
Total current liabilities		**30,816**	19,889
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**288,490**	249,192

The notes on pages 115 to 122 are an integral part of the Company Financial Statements.

Company Income Statement

	Note	For the year ended 31 December 2012	2011
		EUR (thousands)	
Revenues	11	**7,023**	5,881
Cost of sales	12	**(5,634)**	(5,688)
Gross margin		**1,389**	193
General and administrative expenses		**(716)**	(798)
Acquisition-related and reorganisation expenses		**-**	(381)
Other expenses	9	**-**	(1,117)
Net operating result		**673**	(2,103)
Financial income	*7*	**177**	7
Financial expenses	*8*	**(638)**	(585)
		(461)	(578)
Operating result before taxation		**212**	(2,681)
Income taxes benefit	*10*	**-**	200
Net result after taxation		**212**	(2,481)
Result from subsidiaries after taxation	*5*	**24,567**	23,406
Net income		**24,779**	20,925

The notes on pages 115 to 122 are an integral part of the Company Financial Statements.

Company Statement of Changes in Shareholders' Equity

	Share capital	Share premium reserve	Accumulated currency translation adjustments	Hedge reserve	Retained earnings	Net profit for the year	Total
	EUR (thousands)						
Balance as of 1 January 2011	**512**	**92,144**	**2,474**	**73**	**96,117**	**30,410**	**221,730**
Profit appropriation prior year	**-**	**-**	**-**	**-**	**30,410**	**(30,410)**	**-**
Share-based payments	**-**	**-**	**-**	**-**	**16**	**-**	**16**
Net profit for the year 2011	**-**	**-**	**-**	**-**	**-**	**20,925**	**20,925**
Foreign currency translation adjustment	**-**	**-**	**(13,746)**	**-**	**-**	**-**	**(13,746)**
Effective portion in fair value of cash flow hedges*	**-**	**-**	**-**	**378**	**-**	**-**	**378**
Balance as of 31 December 2011	**512**	**92,144**	**(11,272)**	**451**	**126,543**	**20,925**	**229,303**
Profit appropriation prior year					**20,925**	**(20,925)**	**-**
Share-based payments	**-**	**-**	**-**	**-**	**489**	**-**	**489**
Net profit for the year 2012	**-**	**-**	**-**	**-**	**-**	**24,779**	**24,779**
Foreign currency translation adjustment	**-**	**-**	**7,278**	**-**	**-**	**-**	**7,278**
Effective portion in fair value of cash flow hedges*	**-**	**-**	**-**	**(451)**	**-**	**-**	**(451)**
Acquisition of non-controlling interests	**-**	**-**	**-**	**-**	**(3,724)**	**-**	**(3,724)**
Balance as of 31 December 2012	**512**	**92,144**	**(3,994)**	**-**	**144,233**	**24,779**	**257,674**

* Represents changes in fair value adjustment of cash flow hedges related to part of the Company's future transactions denominated in currencies other than the functional currency (see Note 34 to the Consolidated Financial Statements).

The notes on pages 115 to 122 are an integral part of the Company Financial Statements.

Notes to the Company Financial Statements

	Note	For the year ended 31 December 2012	2011
		EUR (thousands)	
Cash flows from/(used in) operating activities			
Net income for the year		**24,779**	20,925
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation	**3,4**	**45**	55
Loss on sale of subsidiaries		**-**	27
Finance expenses	**8**	**638**	585
Finance income	**7**	**(177)**	(7)
Foreign currency exchange paid *	**8**	**(226)**	(301)
Interest payable *	**8**	**(412)**	(284)
Foreign exchange and other finance income paid	**7**	**177**	7
Net result from subsidiaries during the year	**5**	**(24,567)**	(23,406)
change in income tax receivables and deferred tax		**29**	(256)
Net cash from/(used in) provided by operating activities before working capital		**286**	(2,655)
Movement in receivables from and payables to subsidiaries		**7,282**	16,505
Decrease /(Increase) in other receivable and related parties		**712**	(511)
Increase in other accounts payable		**(455)**	307
Equity share-based payments		**489**	16
Net cash from operating activities		**8,314**	13,662
Cash flows from/(used in) investing activities			
Investment in subsidiaries	**5**	**(4,010)**	(2,603)
Acquisition of subsidiaries and Goodwill	**5**	**(1,805)**	(18,438)
Net changes in marketable securities		**-**	109
Investment in loan deeded from a purchased subsidiary		**-**	(2,936)
Proceeds from sale of subsidiaries		**-**	23
Net cash used in investing activities		**(5,815)**	(23,845)
Cash flows from/(used in) financing activities			
Dividend received		**-**	10,240
Net cash from financing activities		**-**	10,240
Increase in cash and cash equivalents		**2,499**	57
Cash and cash equivalents at beginning of year		**410**	353
Cash and cash equivalents at end of year		**2,909**	410

* Reclassified for comparison purposes

The notes on pages 115 to 122 are an integral part of the Company Financial Statements.

Note 1 - General

Cinema City International N.V. (‘the Company’) was incorporated on 12 April 1994, and has its statutory seat in Amsterdam, the Netherlands, and its corporate office in Rotterdam, the Netherlands.

The shares in the Company are traded on the Warsaw Stock Exchange. As at 31 December 2012, 53.89% of the outstanding shares are held by I.T. International Theatres Ltd. (‘ITIT’), incorporated in Israel. The Company is a subsidiary of I.T. International Theatres Ltd. (‘ITIT’).

The Company holds and owns various companies in Europe and Israel that are active in the entertainment business in various countries, including Poland, the Czech Republic, Hungary, Bulgaria, Romania, Slovakia and Israel. The Company is also engaged in managing and establishing its own entertainment real estate projects for rental purposes, in which the Company operates motion picture theatres. In addition, the Company is involved in short-term and long-term real estate trading in Central Europe.

Note 2 - Accounting principles

The Company’s financial statements have been prepared under the option of clause 362.8 of Part 9 of Book 2 of the Netherlands Civil Code, meaning that the accounting principles and measurement basis of the Company’s statutory accounts are similar to those applied with respect to the Consolidated Financial Statements (see Notes 2 and 4 to the Consolidated Financial Statements), except for the valuation of subsidiaries which are valued using the net assets value method. The Company Financial Statements have been prepared in conformity with generally accepted accounting principles in the Netherlands (‘Dutch GAAP’), whereas the Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (‘IFRS’) as adopted by the EU and Dutch GAAP as described in Note 4 to the Consolidated Financial Statements.

Note 3 - Intangible assets

The intangible assets comprise software and goodwill and are stated at cost less accumulated amortisation and impairment losses, if any.

	Financial year 2012			
	Balance at beginning of year	Additions during the year	Acquisitions through business combinations	Balance at end of year
	EUR (thousands)			
Cost				
Goodwill	**8,826**	**-**	**-**	**8,826**
Other intangible assets	**227**	**-**	**-**	**227**
	9,053	**-**	**-**	**9,053**
Amortisation and impairment losses				
Goodwill	**-**	**-**	**-**	**-**
Other intangible assets	**148**	**45**	**-**	**193**
	148	**45**	**-**	**193**
Carrying value	**8,905**	**(45)**	**-**	**8,860**

Note 3 - Intangible assets (cont'd)

	Financial year 2011			
	Balance at beginning of year	Additions during the year	Acquisitions through business combinations	Balance at end of year
	EUR (thousands)			
Cost				
Goodwill	-	-	8,826	8,826
Other intangible assets	227	-	-	227
	227	-	8,826	9,053
Amortisation and impairment losses				
Goodwill	-	-	-	-
Other intangible assets	102	46	-	148
	102	46	-	148
Carrying value	125	(46)	8,826	8,905

Note 4 - Property and equipment

Composition:	Financial year 2012			
	Balance at beginning of year	Additions during the year	Accumulated depreciation	Balance at end of year
	EUR (thousands)			
Cinema equipment	-	-	-	-
Computers, furniture and office equipment	-	-	-	-
Carrying value	-	-	-	-

Composition:	Financial year 2011			
	Balance at beginning of year	Additions during the year	Accumulated depreciation	Balance at end of year
	EUR (thousands)			
Cinema equipment	-	-	-	-
Computers, furniture and office equipment	9	-	(9)	-
Carrying value	9	-	(9)	-

Note 5 - Investment in subsidiaries and associates

The subsidiaries and associates of the Company are valued at their net equity value. For the list of the company and the ownership structure, see note 39 to the consolidate financial statements.

The movements in subsidiaries and associates are as follows:

	Financial year	
	2012	**2011**
	EUR (thousands)	
Balance at beginning of the year	**177,688**	166,066
Currency translation adjustment	**6,682**	(13,709)
Investments in subsidiaries *	**4,010**	2,603
Sales of subsidiaries	**-**	(50)
Dividend distribution by subsidiary	**-**	(10,240)
Net result from subsidiaries during the year	**24,567**	23,406
Purchase new subsidiary **	**31,414**	9,612
Balance at the end of the year	**244,361**	177,688

* In 2012 additional capital contribution to subsidiaries Forum Hungary Film Distribution Kft (400,000 EUR), Palace Cinemas Hungary Kft (2,710,000 EUR and Cinema City Bulgaria EOOD (900,000 EUR)

* In 2012 includes the Purchase of Israel Theatres Real Estate B.V and Norma Film L.t.d. Total cash flow in relation to the transaction of Norma Film amounts to EUR 1,805,000. For the purchase of Israel Theatres Real Estate B.V. and the related transactions as further described in note 33 to the consolidated financial statements, no cash flows have taken place for the Company

During December 2012, the company sold all its subsidiaries with cinema operating activities to a newly established company, Cinema City Holding B.V. The sale was accounted for under the carry-over method. Hence in there is no effect of the transaction on the company financial statements.

Note 6 - Shareholders' equity

As of 31 December 2012 and as of 31 December 2011, the authorised share capital of the Company consisted of 175,000,000 ordinary shares with a par value of EUR 0.01 each. For details on shares issued during 2012 and 2011, reference is made to Note 18 of the Consolidated Financial Statements.

The Company's legal reserves comprise the effective portion in fair value of cash flow hedges and the accumulated currency translation reserve. This legal reserve is not available for dividend distribution.

Note 7 - Financial income

The financial income consists of the result to company received from the liquidation of a number of currency swap (EUR 144,000) and foreign exchange gain (EUR 33,000).

Note 8 - Financial expenses

The financial expenses mainly relate to interest payable to Group companies amounting to EUR 412,000 (2011: EUR 284,000) and to foreign currency exchange losses of EUR 226,000 (2011: EUR 301,000).

Note 9 – Other expenses

In 2011, this item contained credit royalties to subsidiary. In 2012, no royalty expenses were credited to the subsidiaries

Note 10 - Income taxes

In 2011, an income tax benefit was recorded due to deferred tax in respect of current tax carry forward losses.
Realisation of the deferred income tax asset is dependent upon generating sufficient taxable income in the period that the deferred income tax asset is realised. Based on all available information, it is probable that the deferred income tax asset is realisable and therefore the deferred tax asset is valued at EUR 1,201,000 (31 December 2011: EUR 1,201,000).
The accumulated tax losses carried forward as per 31 December 2012 are estimated to be EUR 5,584,000 (31 December 2011: EUR 6,191,000).

Note 11 – Revenue

This item contains mainly Royalties income from subsidisers.

Note 12 –Cost of Sales

This item contains mainly Royalties expenses to subsidisers.

Note 13 - Personnel

The Company employed no employees during the years 2012 and 2011.
Due to the fact that most of the employees including the management board and the supervisory board are remunerated outside the Netherlands, the crisis levy is therefore has not impact on the company.

Note 14 – receivables and payables from subsidiaries

The receivable from and payable to subsidiaries mainly relates to financing within the group and services provided between Cinema City International and its direct or indirect subsidiaries. The majority of these loans are interest bearing and considered to be short term. The interest expense of this loan in the year 2012 amounts to EUR 404,000 (2011: EUR 284,000).
All transactions have taken place at arm's length conditions

Note 15- Directors' remuneration

	Financial year	
	2012	2011
	EUR (thousands)	
Mr. Moshe Greidinger, General director:		
Salary and other short-term benefits	**283**	282
Post-employment benefits	**16**	15
Management bonus	**954**	794
	1,253	1,091
Mr. Amos Weltsch ,Operational director:		
Salary and other short-term benefits	**245**	235
Share based payments	**489**	-
Post-employment benefits	**13**	13
Management bonus	**382**	397
	1,129	645
Mr. Israel Greidinger, Financial director:		
Salary and other short-term benefits	**246**	242
Post-employment benefits	**13**	13
Management bonus	**477**	397
	736	652
Total	**3,118**	2,388

The total remuneration is included in general and administrative expenses. The members of the Management and Supervisory Board did not receive any option rights to acquire shares in the Company during the financial years 2012 and 2011 and there are no outstanding options by the end of 2011 and 2012 to Supervisory Board members Except to Mr. Weltch as described below.
The Board of Managing Directors of the Company consists of 3 members; the board members are entitled to a total remuneration of EUR 3,388,000 during the year 2012 (2011: EUR 2,388,000). The amount of remuneration also includes fees, salaries and bonuses paid and have been paid through the Company's subsidiaries.

Note 15- Directors' remuneration

The Supervisory Board of the Company consists of 5 members; the Supervisory Directors are entitled to an annual fee of EUR 12,500 plus an amount of EUR 1,500 per board meeting (EUR 750 if attendance is by telephone). The chairman of the Supervisory Board and the chairman of Audit Committee are entitled to an additional EUR 5,000 per year . The total amount due in respect of Supervisory Board fees during 2012 is EUR 135,000 (2011: EUR 128,000) and can be presented below:

	Financial year	
	2012	**2011**
	EUR (thousands)	
Mr. Coleman Kenneth Greidinger	**-**	10
Mr. Scott S. Rosenblum	**28**	28
Mrs. Caroline Twist	**21**	19
Mr. Frank Pierce	**21**	20
Mr. Peter Weishut	**22**	22
Mr. Yair Shilhav	**43**	29
Total	**135**	128

In April 2012, Mr Amos Weltsch, member of the Management Board of the Company, was granted650,000 options as a part of his remuneration package, each entitling him to subscribe for one share in the Company at the issue price of PLN 29 per share. The issue price is based on the six-month average share price of the shares on the Company on the Warsaw Stock Exchange in the period between 31 August 2011 and 29 February 2012.
The options granted to Mr Weltsch will vest in 47 equal monthly tranches of 13,542 options, each on the last day of each month in the period from 30 April 2012 to 29 February 2016, with an additional tranche of 13,526 options vesting on 31 March 2016. Mr Weltsch may exercise the options vested to him in each

The options granted to Mr Weltsch will vest in 47 equal monthly tranches of 13,542 options, each on the last day of each month in the period from 30 April 2012 to 29 February 2016, with an additional tranche of 13,526 options vesting on 31 March 2016. Mr Weltsch may exercise the options vested to him in each of the tranches on multiple occasions within two years from the date the given tranche of share options was vested

For the remuneration elements received by the individual Board members, reference is made to Note 33 to the Consolidated Financial Statements.

Note 16- Information about agreed-upon engagements of the Company's auditor

Information about the agreements and the values from those agreements is disclosed below:

	31 December	
	2012	**2011**
	EUR (thousands)	
Remuneration for audit Ernst & Young Accountants LLP (only in 2012) and KPMG Accountants N.V. [(1)]	**170**	225
Remuneration for audit (other)[(2)]	**300**	356
Remuneration for other services[(3)]	**400**	573
	870	1,154

(1) This remuneration disclosure of the audit fee is in accordance with article 382a Title 9 Book 2 of the Dutch Civil Code.

(2) Remuneration for audit includes the amounts paid and due to KPMG and Ernst & Young (only year end 2012)worldwide for professional services related to audit and review of unconsolidated and consolidated financial statements of the Company for the relevant year.

(3) Remuneration includes other services rendered by the auditor in 2012 and 2011.

Note 17 - arrangement not shown in the balance sheet

The Company forms a fiscal unity for corporate income tax purposes with Cinema City Finance B.V., Cinema City Holding B.V., Global Parks Holding B.V., Israel Theatre Real Estate B.V. and ITR 2012 B.V. Foreign group companies are subject to foreign tax. Regarding other arrangements see note 26 to the consolidated financial statements.

Signatories to the financial statements

Rotterdam, 14 March 2013

The Management Board

Moshe Greidinger	Amos Weltsch	Israel Greidinger

Supervisory Board

Scott S. Rosenblum	Caroline Twist	Frank Pierce
Peter Weishut	Yair Shilhav	

Articles of Association rules regarding profit appropriation

In accordance with Article 32 of the Articles of Association,

1) the Board of Managing Directors, with prior approval of the Supervisory Board, shall determine which portion of the profits – the positive balance of the profit and loss account – shall be reserved. The profit remaining shall be at the disposal of the General Meeting;

2) profit distributions may only be made to the extent the equity exceeds the paid and called-up part of the capital increased with the reserves which must be maintained pursuant to the law;

3) dividends shall be paid after adoption of the annual accounts evidencing that payment of dividends is lawful;

4) the Board of Managing Directors, with prior approval of the Supervisory Board may resolve to pay an interim dividend provided the requirement of the second paragraph has been complied with as shown by interim accounts drawn up in accordance with the provision of the law;

5) the General Meeting may, subject to due observance of the provision of paragraph 2 and upon a proposal by the managing directors, resolve to make distributions out of a reserve which need not to be maintained by virtue of the law;

6) cash payments in relation to bearer shares if and in as far as the distributions are payable outside the Netherlands, shall be made in the currency of the country where the shares are listed and in accordance with the applicable rules of the country in which the shares of the Company have been admitted to an official listing on a regulated stock exchange in accordance. If such currency is not the same as the legal tender in the Netherlands the amount shall be calculated against the exchange rate determined by the Netherlands Central Bank (‘De Nederlandsche Bank’) at the end of the day prior to the day on which the General Meeting shall resolve to make the distributions in accordance with the above. If and in as far as the Company on the first day on which the distribution is payable, pursuant to governmental measures or other extraordinary circumstances beyond its control is not able to pay on the place outside the Netherlands or in the relevant foreign currency, the Board of Managing Directors is authorised to determine to that extent that the payments shall be made in Euros and on one or more places in the Netherlands. In such case the provisions of the first sentence of this paragraph shall not apply;

7) the General Meeting may, upon a proposal by the managing directors which proposal was approved by the Supervisory Board, resolve to pay dividends, or make distributions out of a reserve which need not to be maintained by virtue of the law, wholly or partially in the form of shares in the capital of the Company;

8) a claim of a shareholder to receive a distribution expires after 5 years;

9) For the calculation of the amount of profit distribution, the shares held by the Company shall be excluded.

10) As of 31 December 2012 and as of 31 December 2011, the authorised share capital of the Company consisted of 175,000,000 ordinary shares with a par value of EUR 0.01 each

Subsequent events

Reference is made to Note 40 (page 109).

Proposed profit appropriation

For the year ended 31 December 2012, management proposes to allocate the net profit for the year 2012 amounting to EUR 24,779,000 to retained earnings. This proposal has not been reflected in the Company Statement of Financial Position per 31 December 2012.

Auditor’s report

The auditor’s report is set out on pages 124 to 125.

Independent auditor's report

To: The Annual General Meeting of Shareholders of Cinema City International N.V.

Report on the financial statements

We have audited the accompanying financial statements 2012 of Cinema City International N.V., Rotterdam (as set out on pages 41 to 123). The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, consolidated statement of comprehensive income, statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2012, the company income statement, company statement of changes in shareholders' equity and company statement of cash flows for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Directors' report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Cinema City International N.V. as at 31 December 2012, its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements
In our opinion, the company financial statements give a true and fair view of the financial position of Cinema City International N.V. as at 31 December 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 14 March 2013

Ernst & Young Accountants LLP

Signed by J.H. de Prie