Cinema City International N.V.

Annual Report

for the year ended
31 December 2011

GENERAL INFORMATION

Management Board

Moshe Greidinger
Amos Weltsch
Israel Greidinger

Supervisory Board

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

Company secretary

Malek Ballan

Registered office

Weena 210-212
3012 NJ Rotterdam
The Netherlands

Auditors

KPMG Accountants N.V.
Laan van Langerhuize 1
1186 DS Amstelveen
The Netherlands

LETTER FROM THE CEO

Dear Shareholders

2011 was another very eventful year in the life of Cinema City. We began the year with the successful acquisition of the Palace Cinemas chain in the Czech Republic, Hungary and Slovakia, which added 15 multiplexes, 141 screens and a new territory to our circuit. With this acquisition, we were catapulted to the third largest cinema operator in all of Europe. In total, during the year we grew our cinema circuit by 22 multiplexes and 200 screens, which represents the largest yearly expansion in our history. We ended the year with 906 screens in 96 theatres.

During the year, we invested approximately EUR 50 million in our new and existing theatres. We opened four new multiplexes: three in Romania, in Braila, Arad and Turgu Mures, and one in Poland, in Torun.

In 2011, we continued construction of our third Planet megaplex in Israel, in Rishon Letzion, which is scheduled to open mid-year. The theatre, which will become our flagship operation in Israel, will boast 25 screens, including our first IMAX® screen in the country.

During the year we moved ahead with our rapid conversion from traditional to digital projection. By the end of the year, more than 90% of our chain has been digitalized. We believe that digital technology will not only continue to generate premium priced higher attendance through 3D films and alternative content (such as operas, ballet, sporting and other events drawing worldwide attention), but it will also help to reduce cinema operational costs. In addition, we have begun to recoup the cost of investing in this digital technology through virtual print fee agreements we have entered into with most of the major film studios.

In 2011 we also continued to sign new lease agreements for future multiplexes. We currently have signed agreements for approximately 350 screens, with openings scheduled in the coming two to four years. We continue to be particularly excited by our growing presence in Romania, where we now operate 12 cinemas with 114 screens in 10 cities.

In 2011 our theatre operations continued to grow. This was in spite of the fact that 2010 included the results of the record-breaking movie, *Avatar 3D*. Thanks, in large part, to the acquisition of Palace Cinemas, in 2011 we achieved a record 35.5 million admissions across our 7 countries of operations. We generated EUR 267 million in revenue, a 14% increase over 2010. 2011 cinema related EBITDA, net of the one-time costs related to the Palace Cinemas acquisition, remained unchanged from 2010, at approximately EUR 53 million. Our cinema related net profit, net of the one-time costs related to the Palace Cinemas acquisition, totaled EUR 24 million in 2011, an 11% decrease from 2010.

Regarding our screen advertising activities, we continue to see stable demand from our screen advertisers, and anticipate that screen advertising demand should continue to hold up, supported by the greater flexibility in advertising opportunities offered by the completion of our conversion to digital screens, and the addition of so many new screens, which was accelerated by our Palace acquisition last year.

In 2011, our film distribution division revenue increased by 28.1% to EUR 21.8 million from EUR 17.0 million for the same period last year. The increase is mainly due to the increased distribution activities following the agreement signed in September 2010 with the Israeli film distributor A.D. Matalon to serve as its sub-distributor in the Israeli market. In 2011 we launched our film distribution activities in Slovakia and we intend to do the same in the Czech Republic in 2012.

I look forward to 2012, which features a promising line-up of blockbuster franchise films including *Lord of the Rings: The Hobbit*, and the latest *James Bond* movie, as well as the latest *Madagascar* and *Ice Age* installments and a number of new international and domestic titles. On the digital front, we expect to have 100% of our cinemas converted to digital projectors by the end of the first quarter of 2012. In addition to our planned megaplex opening in Rishon Letzion in Israel, we also expect to open new theatres in Bulgaria, in

LETTER FROM THE CEO

Burgas and Sofia, in the Czech Republic in Ostrava, and our next cinemas in Romania, all together representing almost 80 new screens.

Once again this year I wish to express my thanks and gratitude for the exemplary work of our Cinema City management and employees across our 7 countries of operations. The cinema business is our larger-than-life adventure and we are very grateful that we can share it with our tens of millions of loyal cinemagoers every year.

Thank you for your loyalty and we look forward to sharing a new slew of good movies with you in 2012!

Moshe Greidinger, CEO

15 March 2012

Contents

Supervisory Board Report

We are pleased to present the financial statements of Cinema City International N.V. for the financial year 2011, accompanied by the report of the Management Board. KPMG Accountants N.V. audited the financial statements and issued an unqualified auditor's report. We recommend the shareholders adopt the financial statements as presented.

We concur with the Management Board's proposal as taken up on page 111 to allocate the net profit for the year 2011, amounting to EUR 20,925,000, to retained earnings.

Supervision
During 2011, seven meetings were held by the Supervisory Board and the Management Board during which 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;
- internal audit reports;
- the Management Board remuneration policy as well as the Company's long-term incentive plan;
- the Palace acquisition
- Financial results and other related issues.

All Supervisory Board meetings held in 2011 were attended by the majority of the members of the Supervisory Board and none of the members of the Supervisory Board was absent for more than one Supervisory Board meeting in 2011, other than Mr Coleman Greidinger who missed all of the meetings due to health related issues and who passed away in October 2011. Mr Rosenblum acted as chairman in the absence of Mr Coleman Greidinger, until 14 November 2011 when he was appointed Chairman of the Supervisory Board subsequent to Mr Coleman Greidinger's passing (see below).

Special Committee of Independent Supervisory Board members
As the Bulgarian real estate previously owned by the Company was sold in 2010 to the Company's main (indirect) shareholder, Israel Theatres Ltd., the deferred payment agreement that the Company signed in 2011 with Israel Theatres Real Estate Holding B.V. and Pan-Europe Finance B.V., both subsidiaries of Israel Theaters Ltd., was treated as a 'related party transaction'. For this reason, the Supervisory Board of the Company formed a special committee of independent board members who, together with the Company's Audit Committee, considered and approved the execution of the new agreement. For a more detailed description of the transaction, reference is made to the Directors' Report (page 23).

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 2011, the Audit Committee met four 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 2011, 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 2011, the Remuneration Committee met twice.

Mr Coleman Kenneth Greidinger

It was with great sadness that the Supervisory Board learned that the Chairman of the Supervisory Board, Mr Coleman Kenneth Greidinger, passed away on 15 October 2011 at the age of 87. Mr Greidinger served as Chairman of the Supervisory Board of Cinema City International N.V. from its inception in 2004. Mr Greidinger founded Israel Theatres Ltd. in 1958 and served as managing director of Israel Theatres Ltd. and affiliated companies since that time. He led the development and growth of the cinema business in Israel and was the longest-serving member of the Rotary Club in Israel, Co-Founder and President of the Variety Club Israel and for more than fifty years, Honorary Consul General of Norway in Haifa. He also served on the Management Board of Trustees of Maccabi Haifa and on the Board of Governors of the Hebrew University in Jerusalem and the Technion University in Haifa. As Chairman of the Supervisory Board, he oversaw the activities of the Company as it grew to the 3rd largest exhibitor in all of Europe. He was a man of great experience and wise counsel to the Supervisory and Management Board of the Company. He will be missed by all Supervisory and Management Board members.

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 2011, during the annual General Meeting of Shareholders, Messrs Frank Pierce and Yair Shilhav were reappointed as Supervisory Directors of the Company. Their new term will expire in June 2015. For the upcoming General Meeting of Shareholders, the proposal to reappoint Mr Rosenblum, whose term expires in June 2012, will be scheduled.

Composition of the Management Board

With a view to the expiration of their four year term as Managing Directors in June 2012, the proposal to reappoint Messrs Moshe Greidinger, Israel Greidinger and Amos Weltsch is scheduled for the upcoming General Meeting of Shareholders.

Financial statements

The Management Board has prepared the 2011 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 by a Supervisory Board meeting.

15 March 2012
For the Supervisory Board

Scott 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 2011.

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.*

The currently outstanding options 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.

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

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.*

Our 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 2011 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 a new deferred payment agreement that the Company signed in October 2011 with Israel Theatres Real Estate Holding B.V. and Pan-Europe Finance B.V., both subsidiaries of the Company's main (indirect) shareholder, Israel Theatres Ltd., following the sale of the Bulgarian real estate development projects and activities to these subsidiaries of Israel Theatres Ltd. during the year 2010. Best practice provisions II. 3.2, II. 3.3, III. 6.1 and III. 6.2 were applied. In order to address the conflict of interest issue pursuant to this transaction, the independent Supervisory Directors, together with the Company's Audit Committee, considered and approved the execution of the new agreement.

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.

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 three committees:
- the Audit Committee;
- the Selection and Appointment Committee;
- the Remuneration Committee.

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 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 2012.

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 2012.

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 2012.

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 2012.

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 16 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.

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
- Aviva Investors Poland S.A.
- ING Powszechne Towarzystwo Emerytalne S.A.
- BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych 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%.

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

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.

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.

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 ongoing 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

Interest expenses and, therefore, the Company's results are affected by movements in interest rates. The Company did not enter into any interest rate swap contracts to limit the effect of interest rate movements on the result.

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 2011, 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 31 of 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.

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 7% of the Company's pre-tax profit before the bonus which is paid out on an annual basis.

As the bonus pool equals 7% 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.

Remuneration Report

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.

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 Audit Committee is entitled to an additional EUR 5,000 per year and the chairman of the other committees is entitled to an additional EUR 2,500 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 13 March 2012, the market price was PLN 33.31 (EUR 8.12) per share, giving the Company a market capitalisation of EUR 415.9 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 third largest cinema operator in all of Europe. The Company operates 96 multiplexes with a total of 906 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 Poland, the Czech Republic, Hungary, Bulgaria, Romania as well as in Israel, where it plans to open its first IMAX® screen in the first half of 2012. The Company is one of the fastest growing cinema chains with plans to open 33 new multiplexes (approximately 350 screens) underpinned with binding lease agreements.
The Company is also running film distribution through its local subsidiary companies branded Forum Film in all countries. Forum Film is acting as the exclusive motion picture distributor for Walt Disney Company and MGM studio in all 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 an exclusive film distributor for Paramount and Universal studios.
Cinema City maintains a small-scale cinema-related real estate presence in selected countries.

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, most recently, 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 and 3D 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.

Economy and business developments during 2011

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 population continues 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 2011, the Company operated 339 screens (including 5 IMAX® theatres) in 31 cinemas, and had an approximately 40% market share in terms of total number of admissions in Poland in 2011. In the Polish market, the Company now has two main competitors: Multikino (206 screens in 24 theatres) and Helios (146 screens in 27 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 is the exclusive distributor of Buena Vista International, a subsidiary of Disney, distributing movies of Disney and Touchstone. In addition, 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 prime location multiplexes in Budapest with a total of 47 screens. During the year, 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. Cinema City has an approximately 70% market share in terms of number of tickets sold in Hungary.

The main competitors in Hungary are Budapest Film (16 screens), Magyar Moziüzemeltető Kft (10 screens), Maximozi Kft (6 screens), Óbudai Moziüzemeltető Kft (7 screens) and Tatabányai Moziüzemeltető Kft (4 screens).

Following the Palace acquisition in 2011, the Company also has provided selected management services, for the Palace Mozi operated by Palace Mozi Kft, a Hungarian subsidiary of Palace Cinemas that was not acquired by the Company. The agreement was terminated toward the end of 2011.

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 one of the largest cinema operators in the Czech Republic with a relatively strong presence in Prague. As of 31 December 2011, 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. The Company has an approximately 36% market share in terms of number of admissions. The Company's main competitor in the Czech market is Cinestar (83 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 launched a film distribution company in the Czech Republic, Forum Film Czech s.r.o. The activity of this distribution company started in January 2012.

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. With this acquisition, the Company's market share, measured by the number of admissions, is approximately 35%. 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.

Bulgaria

The Company currently operates 4 modern multiplexes in Bulgaria located in the Mall of Sofia, Mall of Plovdiv, Galleria Mall Stara Zagora and Mall Russe with a total of 40 screens and one IMAX® theatre.

The Company's main competitor in the Bulgarian market is Arena Cinemas (72 screens).

The Company has signed contracts for a number of additional multiplexes, which it plans to open in the coming two years. In addition, the Company has 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 12 modern multiplexes in 10 cities with a total screen count of 114. Three of these multiplexes were opened in 2010 and another three in 2011. The Company has entered into additional lease agreements, which can result in the opening of approximately an additional 230 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). The Israeli movie exhibition market is dominated by three cinema operators. As of 31 December 2011, the Company operated 96 screens in 13 cinemas, and had an approximately 32% market share in terms of number of admissions in Israel during 2011.

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 57 screens in 4 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 mid-2012, the Company's plans to open its third Yes Planet Megaplex in Israel, south of Tel Aviv, in Rishon Letzion, which will become the Company's flagship operation in the country with 25 screens and the Company's first 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, MGM and several other independent studios. In September 2010, Forum Film Israel closed an agreement with the Israeli film distributor, A.D. Matalon, under which Forum Film Israel will act as sub-distributor for Sony and Fox movies in Israel. The Company's main competitor in the distribution business is Globus which, through its own distribution channel, acts as a distributor for Warner and UIP.

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

Business highlights during 2011

- **The Company turned in a steady financial performance for the year ended 31 December 2011** generating revenues of EUR 267.5 million, consolidated EBITDA (Earnings Before Interest, Taxation, Depreciation and Amortisation) of EUR 53.4 million (excluding acquisition-related and reorganisation expenses) and net income of EUR 24.2 million (excluding acquisition-related and reorganisation expenses). Including acquisition-related and reorganisation expenses, the EBITDA and net income for the year ended 31 December 2011 amounted to EUR 50.1 million and EUR 20.9 million, respectively.

- **In the year ended 31 December 2011 EBITDA from theatre operations (excluding acquisition-related and reorganisation expenses) decreased to EUR 50.8 million compared to EUR 53.2 million in the year ended 31 December 2010 (-4.6%). The number of tickets sold increased to 35.5 million compared to 30.5 million in the year 2010 (+16.2%**) with the number of admissions on a same theatre basis decreasing by 8.7% from 30.5 million for year ended 31 December 2010, to 27.9 million for the year ended 31 December 2011. The increase in the number of tickets sold in the year 2011 is driven mainly by the acquired Palace Cinemas multiplexes. The decrease in the number of tickets sold on a like-for-like basis is attributed mainly to the unprecedented strong admissions in the first quarter of 2010, when *Avatar* and *Alice in Wonderland* dominated the screens.

- **In the fourth quarter of 2011, EBITDA from theatre operations (excluding acquisition-related and reorganisation expenses) increased to EUR 14.2 million compared to EUR 12.1 million in the fourth quarter of 2010 (+17.4%). The number of tickets sold in the fourth quarter increased to 9.4 million compared to 7.4 million in the fourth quarter of 2010 (+27.7%**) with the number of admissions on a same theatre basis increasing by 1.4% from 7.4 million for the three months ended 31 December 2010 to 7.5 million for the three months ended 31 December 2011. The increase in the number of tickets sold in the fourth quarter is mainly driven by the acquired Palace Cinemas multiplexes and by the positive reception of a number of Polish domestic movies.

- **Acquisition of Palace Cinemas. In January 2011, the Company purchased the Palace Cinemas chain, comprising 141 screens in 15 multiplexes in Hungary, Czech Republic and Slovakia. The purchase price for the transaction was EUR 28 million.**

- **New openings, closings and signing of subsequent lease agreements.** In 2011, the Company opened 4 new cinemas with a total of 34 screens, with 3 new cinemas in Romania: in Braila (10 screens), Arad (8 screens) and Turgu Mures (8 screens), and 1 new cinema in Poland: in Torun (8 screens). In May 2011, the Company signed lease agreements and started operating 3 multiplexes operated previously by Palace Mozi in Hungary with a total of 17 screens. During the year, 5 screens were closed in Israel as part of the on-going process of repositioning the Company's chain in this market, whereas 3 screens were closed in Hungary. Furthermore, the Company signed three lease agreements for future multiplexes in: Lublin, Poland, Sofia, Bulgaria and in Ploiesti, Romania.

- **Cinema City reorganised its Polish operations**, which were regrouped within a closed investment fund registered in Cyprus. The reorganisation in Poland is expected to bring organisational benefits and to enable tax optimisation when managing the operational companies starting from the fourth quarter of 2011.

- **The Company's total screen count as at 31 December 2011 is 906 in 96 multiplexes (including 9 IMAX® theatres**).

- **Digitalisation program nearly completed.** The Company has deployed to date almost 800 digital projectors, which now represent approximately 90% of all of the Company's projectors. The Company plans to have all of its screens digitalised by the end of the first quarter of 2012.

- **Film distribution business performed positively with growing revenue and EBITDA**. The Company has also established Forum Film Slovakia, which commenced operations in May 2011.

Theatre operations

The total number of tickets sold for the year ended 31 December 2011 increased by 16.2% to 35.5 million compared to the same period in 2010 (and by 27.7% in the fourth quarter of 2011 compared to fourth quarter of 2010) while same-theatre admissions decreased by 8.7% in the year ended 31 December 2011 compared to the same period in 2010 (with same-theatre admissions increasing in the fourth quarter of 2011 by 1.4% compared to the fourth quarter of 2010). Theatre operations revenue reached EUR 243.8 million during 2011 versus EUR 215.5 million recorded in 2010, representing a 13.1% year over year increase. The increase was due primarily to the new cinemas added to the chain, especially following the Palace Cinemas acquisition in January 2011, but also from the new cinemas opened during 2010 and 2011.

The Company's theatre performance in 2011 has to be viewed in the context of the tremendous growth that took place in 2010, driven in large part by the unprecedented success of *Avatar*. 2011 offered a more modest selection of international titles, including a number of sequel films including *Pirates of the Caribbean 4*, the last instalment of *Harry Potter*, *Hangover 2*, *Twilight Saga 3* and *Cars 2*, which, while generally successful, attracted smaller audiences compared to 2010. The drop in performance of international titles was only partially countered by the very successful domestic production in Poland of a number of titles including *Listy do M* (2.2 million admissions in 2011), *Och Karil!2* (1.7 million admissions), *Bitwa Warszawska 3D* (1.5 million admissions) and a number of well selling mid-range titles.

Palace acquisition and following cinema additions

In January 2011, the Company purchased the Palace Cinemas chain, comprising 141 screens in 15 multiplexes in Hungary, the Czech Republic and Slovakia. The multiplexes were grouped into 4 entities: Palace Cinemas Czech s.r.o. operating 8 multiplexes with 65 screens in the Czech Republic; Palace Cinemas Hungary Kft, operating 4 multiplexes with 47 screens in Hungary; Palace Multikino s.r.o. and Palace Cinemas Slovak Republic s.r.o., operating 3 multiplexes with 29 screens in Slovakia. The purchase price for the transaction was EUR 28.0 million. The purchase price was based on a multiple of 6 times 'normalised' EBITDA of the acquired companies during 2010. The EUR 28.0 million purchase price was made up of EUR 21.4 million to the seller in cash and the Company's assumption of EUR 6.6 million in existing debt of the acquired companies. The acquisition was financed from the Company's existing cash and from available credit lines.

Under the original purchase agreement, the Company did not acquire Palace Mozi, Kft, a Hungarian company that was owned by Palace Cinemas (Central Europe) B.V. Palace Mozi operated 5 multiplexes in Budapest and 3 multiplexes outside of Budapest. In conjunction with the Palace acquisition, the Company agreed to provide selected management services to the Palace Mozi cinemas.

In May 2011, however, the landlord at three of the Mozi multiplexes terminated the lease agreement with Palace Mozi and, in mutual settlement of outstanding amounts owed by Palace Mozi, assumed control of the assets of these multiplexes. Upon taking control, the landlord immediately leased the space occupied by these three multiplexes to the Company, which is now operating these theatres.

This acquisition and acquisition-related lease agreements have significantly strengthened the Company's position in the Hungarian and Czech markets and added Slovakia to the Company's countries of operation.

Following the closing of the acquisition, the Company immediately instituted a restructuring program in order to recognise cost savings and overhead synergies, and to integrate the Palace Cinemas organisation with Cinema City's. These cost savings were implemented at Palace Cinemas in large part in order to bring the operations of the Palace Cinemas chain in line with the structure of the Company's existing operations. Benefits resulting from this restructuring are already being realised.

Under recently adopted International Financial Reporting Standards (IFRS), companies are no longer permitted to capitalise the one-time transaction and some reorganisation costs associated with acquisitions. As a result, the Company is required to include such costs in the amount of EUR 3.3 million as part of its current expenses. Such costs incurred had a material impact on the Company's EBITDA and net income for year ended 31 December 2011. In order to show a clearer comparison of the annual results without the disproportionate impact of these one-time expenses, the Overview of Results for the year ended 31 December 2011 on page 25 is 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.

New openings, closing and signing of subsequent lease agreements

In 2011, the Company opened 4 new cinemas with a total of 34 screens: 3 new cinemas in Romania, notably in Braila (10 screens), Arad (8 screens) and Turgu Mures (8 screens) and 1 new cinema in Torun, Poland (8 screens). In May 2011, the Company signed lease agreements and started operating 3 multiplexes operated previously by Palace Mozi in Hungary with a total of 17 screens. During the year 2011, 5 screens were closed in Israel as part of the on-going process of repositioning the Company's chain in this market, whereas 3 screens were closed in Hungary. Furthermore, the Company signed three lease agreements for future multiplexes: in Lublin, Poland, in Sofia, Bulgaria and in Ploiesti, Romania.

Digital Projection

Digital projection represents the most important technological advance in movie viewing since the 1950s, by providing a higher quality and a sharper resolution viewing experience than traditional projectors, and through the ability to display a new generation of 3D movies in a large scale. The Company believes that digital technology will benefit the Company on both the revenue and cost side including:

1. offering an enhanced user experience that facilitates premium priced ticketing
2. generating higher attendance through 3D films and alternative content (such as operas, ballet, sporting and other events drawing worldwide attention);
3. reducing cinema labour costs as digital projectors require less ongoing manpower than traditional reel-to-reel projectors;
4. providing a more effective content programming process in the entire cinema chain;
5. encouraging a higher potential for cinema advertising clientele, including those with more modest budgets.

The Company has already digitalised almost 800 projectors representing approximately 90% of all Cinema City auditoriums. Also, all IMAX® theatres operated by Cinema City have offered digital projection since 2010. The Company intends to finalise the digitalisation process by the end of the first quarter, 2012.

In the first quarter of 2011, the Company signed an agreement with Master Image, one of the leading international providers of 3D digital movie solutions, to supply 3D systems integrated with single-user glasses. Using the single-user glasses should allow the customer to own their 3D glasses, and should also help the Company to optimise the operation associated with showing 3D movies in the Company's theatre circuit.

While the Company has borne all the costs to date associated with installing digital projectors, the movie studios have also been beneficiaries of this technological upgrade as they are now able to save significant costs associated with producing and delivering traditional film. To compensate the Company for the benefits realised by the studios, the Company has agreed on a set of rules for virtual print fee agreements with all its major film suppliers (except one). Under these agreements the film studios will pay the Company a fee for each 'digital print' used in the Company's multiplexes in the coming years. This fee, in essence, will allow the Company to recoup over time a portion of the costs incurred in installing digital projectors throughout its chain. The Company has been benefiting from these virtual print fee agreements in 2011.

Sale of real estate

Following the Company's sale of its Bulgarian real estate activities to Israel Theatres Ltd. in April 2010, the Company ceased to be active in real estate transactions. Accordingly, other activities including real estate operations did not materially contribute to the Company's results for the year 2011 which compares to a gross profit amounting to EUR 3.0 million from the Bulgarian real estate sale during the year ended 31 December 2010.

Under the Company's April 2010 agreement to sell its Bulgarian real estate activities to Israel Theatres Ltd., Israel Theatres paid the Company EUR 76.2 million at the closing and agreed to pay a further EUR 15 million by no later than October 2011. On 23 October 2011 the Company signed a deferred payment agreement with Israel Theatres Real Estate Holding B.V. and Pan-Europe Finance B.V., both subsidiaries of Israel Theatres Ltd. (the 'Buyers') according to which the pending payment to the Company of the remaining EUR 15 million of the purchase price for assets related to the above mentioned Bulgarian real estate activities was deferred, while the period during which the Company will be entitled to a percentage of any potential gains to be realised by the Buyers has also been extended from the end of 2014 until 31 December 2018.

The Buyers have requested the Company to defer the payment of the remaining EUR 15 million in the light of the deterioration of the real estate market in Bulgaria resulting in cancellation and/or renegotiation of lease agreements with tenants and in the necessity of re-leasing the space on much less favourable conditions with significantly reduced rents. The Company and the Buyers have agreed to the following new terms:

1. EUR 5 million will be repaid to the Company no later than 22 October 2013, EUR 5 million will be repaid no later than 22 October 2014 and EUR 5 million will be repaid no later than 22 October 2015;
2. Early repayment is possible without prepayment penalty. The unpaid amounts will bear interest payable annually as follows: 5% for the first year, 6% for the second year and 7% for the following two years, but, in each case, cannot amount to less than the Company's average external borrowing cost plus a margin of 1%;
3. Between the second anniversary to the extended period until 31 December 2018, the Buyers are required to pay to the Company 25% of any gain realised if and when the Bulgarian real estate assets are sold to a third party;
4. The Buyers have waived any claims against the Company in connection with the purchase and sale of the Bulgarian real estate in 2010.

Since Israel Theatres Ltd. indirectly also controls the majority of the shares in the Company, the new payment agreement was treated as a 'related-party transaction'. Consequently, independent Supervisory Board members, together with the Company's Audit Committee, considered and approved the execution of the new agreement.

Film distribution activities

Revenue generated in the year ended 31 December 2011 by the Company's distribution division increased by 28.1% to EUR 21.8 million from EUR 17.0 million for the same period last year. The increase was mainly due to the increase in the distribution activities in Israel supported by the revenue generated as a result of the agreement signed in September 2010 with the Israeli film distributors A.D. Matalon, which materially increased the number of films distributed by the Company in Israel. Reassessment of revenue recognition estimates relating to sales to TV networks in Israel, has also contributed to the increased revenue during the year ended 31 December 2011. The increase in the Company's film distribution activities in Poland, Bulgaria and Romania also contributed to the increase of the film distribution revenues. The increase was partly offset by a weaker supply of movies for which the Company had distribution rights in Hungary during the year ended 31 December 2011 compared to the year ended 31 December 2010.

In May 2011, the Company launched the film distribution operations of Forum Film Slovakia, which became the sixth country, where Cinema City acts as a film distributor.

During 2011, the Company made arrangements for a new film distribution company in the Czech Republic, under the brand name Forum Film. The activities of this company commenced in January 2012.

The Company has entered into a new distribution agreement with other Hollywood studios, MGM. The deal covers the distribution of MGM movies in Poland, Hungary, Romania, Bulgaria and Israel and includes both theatrical and DVD/Blu-ray Disc rights. In certain cases, the Company will distribute MGM movies also in the Czech Republic and Slovakia. The cooperation will start with the distribution of the 'Bond 23- Sky fall' movie in the third quarter of 2012 and will be followed by the first 'Hobbit' film.

Overview of results

The Company's net income attributable to equity holders of the parent company for the year ended 31 December 2011 was EUR 20,925,000 and can be summarised as shown below. For comparison purposes, net results for the year ended 31 December 2011 excluding acquisition-related and reorganisation expenses are also presented. Cinema-related revenues contain theatre operations, film distribution and cinema-related real estate activities.

	For the year ended 31 December		
	2011 *(excluding acquisition & reorganisation expenses)*	**2011**	**2010**
		EUR	
		(thousands, except per share data)	
Continuing operations			
Revenues from cinema-related operations	**267,459**	**267,459**	234,549
Costs from cinema-related operations	**200,246**	**200,246**	168,743
Gross result from cinema-related operations	**67,213**	**67,213**	65,806
Revenues from the sale of real estate	**-**	**-**	91,212
Cost of real estate sold	**-**	**-**	88,170
Gross result from sale of real estate	**-**	**-**	3,042
Total gross result	**67,213**	**67,213**	68,848
General and administrative expenses	**13,789**	**13,789**	12,682
Acquisition-related and reorganisation expenses	**-**	**3,278**	-
EBITDA*	**53,424**	**50,146**	56,166
Depreciation and amortisation	**25,417**	**25,417**	19,817
Operating profit	**28,007**	**24,729**	36,349
Financial income	**634**	**634**	683
Financial expenses	**(4,074)**	**(4,074)**	(2,857)
Loss on disposals and write-off of other investments	**(201)**	**(201)**	(101)
Operating income before taxation	**24,366**	**21,088**	34,074
Income tax benefit/(expense)	**286**	**286**	(4,038)
Net income from continuing operations	**24,652**	**21,374**	30,036
Gain from discontinued operations	**-**	**-**	15
Net income before non-controlling interests	**24,652**	**21,374**	30,051
Non-controlling interests	**(449)**	**(449)**	359
Net income attributable to equity holders of the parent company	**24,203**	**20,925**	30,410
Weighted average number of equivalent shares (basic)	**51,200,000**	**51,200,000**	51,076,060
Weighted average number of equivalent shares (diluted)	**51,232,462**	**51,232,462**	51,118,786
Net earnings per ordinary share (basic and diluted)	**0.47**	**0.41**	0.59

* 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 from cinema-related operations increased by 14.0% from EUR 234.5 million during the year ended 31 December 2010 to EUR 267.5 million during the year ended 31 December 2011.

Theatre operating revenues increased by 13.1% from EUR 215.5 million during the year ended 31 December 2010 to EUR 243.8 million during the year ended 31 December 2011. The increase in theatre operating revenues was mainly due to the contribution of the Palace Cinemas chain and new cinemas opened during 2010 and 2011 in Bulgaria and Romania. This increase was partly offset by the fact that the year 2011 did not generate 3D blockbusters comparable to *Avatar* and *Alice in Wonderland,* which dominated the screens during 2010.

Distribution operating revenues increased by 28.1% from EUR 17.0 million during the year ended 31 December 2010 to EUR 21.8 million during the year ended 31 December 2011. The increase is mainly due to two factors: (1) increased distribution activities in Israel following the agreement signed in September 2010 with the Israeli film distributors A.D. Matalon and (2) an increase in the Company's revenue generated from movie distribution to the Israeli TV networks due to the Israeli distribution arm's recent reassessment of revenue recognition estimates. The increase in the Company's film distribution activities in Poland, Bulgaria and Romania also contributed to the increase of the film distribution revenues. This increase was partly offset by a weak supply of movies in Hungary during the year ended 31 December 2011 compared to a better supply of such movies during the year ended 31 December 2010.

Other revenues from cinema-related operations remained at a similar level: EUR 1.9 million and EUR 2.1 million during the year ended 31 December 2011 and the year ended 31 December 2010, respectively.

During year ended 31 December 2011, there were no ***revenues relating to real estate sold***, whereas during the year ended 31 December 2010 total revenues from the sale of real estate amounted to EUR 91.2 million which were attributable to the sale of the Company's Bulgarian real estate.

Operating costs

Operating costs from cinema related operations, excluding depreciation and amortisation, increased by 18.7% from EUR 168.7 million during the year ended 31 December 2010 to EUR 200.2 million during the year ended 31 December 2011. This net increase resulted primarily from the total effects of:

- an increase in theatre operating expenses primarily explained by costs related to the new cinemas in the Czech Republic, Hungary and Slovakia following the Palace Cinemas acquisition and the new cinemas opened during 2010 and 2011. This increase was partly offset by a decrease in cost due to the lower revenues as described above. The theatre operating expenses, excluding depreciation and amortisation, as a percentage of total theatre revenue increased to 74.5% for the year ended 31 December 2011, from 70.7% for the year ended 31 December 2010;
- an increase in distribution operating expenses as a result of the increase in revenues as described above. Distribution operating expenses, excluding depreciation and amortisation, as a percentage of total distribution revenue decreased to 82.7% for the year ended 31 December 2011, from 91.8% for the year ended 31 December 2010. The decrease in expenses as a percentage of total revenue is mainly due to the increase in the distribution activities in Israel as described above.

Costs relating to real estate sold amounting to EUR 88.2 million during the year ended 31 December 2010 are attributable to the cost of the Company's Bulgarian real estate assets sold to Israel Theatres Ltd. in 2010.

General and administrative expenses

General and administrative expenses increased by 8.7% from EUR 12.7 million for the year ended 31 December 2010 to EUR 13.8 million during the year ended 31 December 2011. The increase in general and administrative expenses is attributable to the increase in the Company's business activities, and is mainly offset by the decrease in the management bonus accrual resulting from the decrease in net income before taxation.

Acquisition-related and reorganisation expenses

The one-time acquisition-related and reorganisation expenses are the result of the Palace Cinemas acquisition. These expenses are associated primarily with legal, accounting and advisory fees to consummate the acquisition and 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) decreased by 4.9%, from EUR 56.2 million for the year ended 31 December 2010 to EUR 53.4 million for the year ended 31 December 2011. EBITDA including acquisition-related and reorganisation expenses, decreased by 10.7% to EUR 50.1 million for the year ended 31 December 2011.

Depreciation and amortisation

Depreciation and amortisation expenses increased by 28.3% from EUR 19.8 million for the year ended 31 December 2010 to EUR 25.4 million for the year ended 31 December 2011. The increase is explained mainly by higher depreciation expenses due to the newly opened theatres in 2010 and 2011 primarily in Poland, Bulgaria and Romania, due to the new cinemas and assets acquired in the Palace Cinemas transaction in January 2011, and due to the increase in amortisation of intangible assets following the purchase of distribution rights during the year ended 31 December 2011.

Operating profit

As a result of the factors described above, excluding the acquisition-related and reorganisation expenses, the operating profit decreased by 22.9% from EUR 36.3 million during the year ended 31 December 2010 to EUR 28.0 million during the year ended 31 December 2011. The operating profit including acquisition-related and reorganisation expenses decreased by 32.0% to EUR 24.7 million for the year ended 31 December 2011.

Financial income/expense

The balance of financial income resulted in a net expense of EUR 3.4 million during the year ended 31 December 2011 compared to a net expense of EUR 2.2 million during the year ended 31 December 2010. The increase is mainly due to an increase in bank debt following the Palace acquisition and due to exchange differences carried on balances denominated in currencies other than the functional currency.

Disposals, write-off of other investments and other costs

Loss on disposals, write-off of other investments and other costs remained at a similar level: EUR 0.2 million and EUR 0.1 million during the year ended 31 December 2011 and the year ended 31 December 2010, respectively.

Income tax

Income tax amounted to a net tax benefit of EUR 0.3 million during the year ended 31 December 2011 compared to net tax expenses of EUR 4.0 million during the year ended 31 December 2010. The decrease in tax expenses is mainly due to the changes in deferred taxes in Poland following the reorganisation of a number of the Company's Polish operational companies. As part of the reorganisation 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 partnerships.

After the completion of the reorganisation process described above, the Company will continue to exercise full control over the activities of the operational companies in Poland and will retain the same scope of rights to participate in their profits. The activities of the Polish operational companies will continue to be fully consolidated with the activities of other subsidiaries of the Cinema City group in the financial statements of the Company. The reorganisation in Poland is expected to bring organisational benefits and to enable tax optimisation when managing the operational companies.

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 0.4 million (negative) for the year ended 31 December 2011 and EUR 0.4 million (positive) for the year ended 31 December 2010.

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 decreased by 20.4% from EUR 30.4 million during the year ended 31 December 2010 to EUR 24.2 million during the year ended 31 December 2011. The Company's net income attributable to equity holders of the parent company, including acquisition-related and reorganisation expenses, decreased by 31.2% to EUR 20.9 million for the year ended 31 December 2011.

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 45.9 million and EUR 47.3 million for the years ended 31 December 2011 and 2010, 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 25.4 million and EUR 19.9 million in 2011 and 2010, 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 75.1 million and net proceeds of EUR 12.2 million during 2011 and 2010, respectively. This includes the net cash consideration of the Palace acquisition in the amount of EUR 18.4 million as well as EUR 10.1 million due to the Rishon Letzion construction in Israel.

The Company's capital expenditures (excluding the effect of the Palace acquisition in 2011 and excluding the effect of the cash inflow resulting from the sale of real estate in Bulgaria in 2010) aggregated to a net investment of EUR 56.6 million and EUR 61.8 million during 2011 and 2010, respectively.

Cash flows from financing activities

The Company's net cash flow from financing activities for the year ended 31 December 2011 amounted to EUR 33.0 million, which compares to a net cash outflow used in financing activities during the year ended 31 December 2010 of EUR 79.6 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 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 Letzion 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).

The cash outflow in respect of financing activities for the year ended 31 December 2010 was mostly explained by the repayment of long-term loans (EUR 97.0 million) mainly out of the proceeds from the sale of the Bulgarian real estate activities, and only partly offset by the proceeds from new long-term loans assumed (EUR 12.8 million), the net increase in short-term bank credits (EUR 2.9 million) and the net proceeds from new shares issued (EUR 1.8 million).

Asset and capital structure

The Company and its subsidiaries finance the majority of their development to date through loans from Bank Leumi in Israel and local banks in Central Europe, mainly in Poland. These loans have financed a growing part of the subsidiaries' projects using financing provided by local banks, against which securities have 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.

Debt and operational debt

As of 31 December 2011, the Company's total debt to its banks amounted to EUR 66.8 million (31 December 2010: EUR 31.2 million). Taking into account the Company's available cash position at 31 December 2011 amounting to EUR 9.3 million (31 December 2010: EUR 10.5 million), the net debt position of the Company amounted to EUR 57.5 million at the end of 2011 (end of 2010: EUR 20.7 million). Out of this net debt, EUR 23.1 million has been used to finance non-operational assets. The Company's non-operational assets mainly consist of investments in theatres under development and investments in non-operational cinema equipment.

Gearing ratio and leverage

	31 December 2011	**31 December 2010**
	EUR (thousands)	
Bank debt:		
Long-term borrowings, including current portion	**49,548**	24,485
Short-term bank credit	**17,277**	6,692
Total debt	**66,825**	31,177
Cash and cash equivalents	**(9,277)**	(10,527)
Net debt	**57,548**	20,650
Construction in progress	**(23,046)**	*(13,255)
Cinema equipment not yet operated	**(134)**	(63)
Net debt financing assets in operation	**34,368**	7,332
Total equity attributable to equity holders of the Company	**229,303**	221,730
Total capital employed	**263,671**	229,062
Gearing ratio	**25.1%**	9.3%
Leverage	**21.8%**	9.0%

***Reclassified for comparison purposes.**

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 decreased significantly in 2010, primarily as a result of the sale of its Bulgarian real estate assets to Israel Theatres in April 2010, in which the Company assigned much of its existing indebtedness with Bank Leumi to Israel Theatres. In conjunction with the assignment of its Bank Leumi debt, the Company agreed not to borrow additional funds if such borrowings would result in Israel Theatres, on a fully consolidated basis (together with the Company), breaching agreed upon EBITDA to debt ratios. This covenant has not had any impact to date on the Company's development plans and, in fact, the Company has found itself in a relatively advantageous position of having an unusually low debt ratio for a rapidly expanding theatre business.

This covenant will remain in force for as long as Israel Theatres remains the majority shareholder in the Company, or until Israel Theatres has repaid its outstanding debt related to the real estate assets in Bulgaria.

Employees

The average number of personnel employed by the Company and its subsidiaries – on a fulltime equivalent basis – increased from 2,558 in 2010 to 3,094 in 2011. The increase is attributable to an increase of personnel in Central Europe largely as a result of expanded activities in that region, mainly due to the Palace acquisition.

Research and development

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

Subsequent events

Acquisition of non-controlling interest
Subsequent to the end of the financial year, in March 2012, the Company signed a Memorandum of Understanding with 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, to acquire the non-controlling interest in Norma Film Ltd. for an amount of EUR 1,755,000 As a result of the transaction, Norma Film Ltd. will be fully owned by the Company.

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 indirectly holds 100% of the equity share in Ya'af - Automatic Video Machines Ltd. and 60% of the equity share in Ya'af - Giant Video Library Network Ltd. However, these two subsidiaries are currently not active.

Following the expansion of the Israeli distribution operations and following the new distribution agreements signed in Israel, the Company considers film distribution in Israel an important integrated activity. Full ownership of the distribution business in Israel is in line with the ownership structure in the other countries in which the Company has significant film distribution operations.

As the acquisition of the non-controlling interest qualifies as a transaction with a related party – IMG 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 has formed a special committee of independent Supervisory Directors of the Company. This committee will , after careful review, vote on the transaction and where necessary represent the Company in the transaction, in order to ensure that transaction is at arm's length and, moreover, to ensure that best practice provisions of the Dutch Governance Code in respect of conflicts of interest will be complied with.

Outlook for the year 2012*

2012 has started well with solid admission levels across the chain resulting from well received feature films including *Puss in Boots* and *Sherlock Holmes 2,* and with a strong early contribution from the Polish market, where domestic productions, including '*W ciemności*', a Polish candidate for an Oscar award, have attracted large audiences. The movie pipeline for the remainder of 2012 appears promising as it is comprised of many franchise and fresh stand-alone titles including: *Men in Black III 3D, Ice Age: Continental Drift 3D, The Amazing Spider-Man 3D, Prometheus 3D, Titanic 3D, The Dark Knight Rises, Madagascar 3 3D, Brave 3D, Bond 23, The Twilight Saga: Breaking Dawn - Part 2, The Hobbit: An Unexpected Journey 3D, The Hunger Games, Journey 2: The Mysterious Island 3D, Star Wars: Episode I - The Phantom Menace 3D, John Carter 3D, Snow White 3D, The Avengers 3D* and many others. The list of movies for 2012 also includes many Polish titles such as the big format: *Bitwa pod Wiedniem* and *Wałęsa* and a number of mid-range films.

In 2012, the Company's plans for cinema openings include the third Yes Planet Megaplex in Israel in Rishon Letzion, which, with 25 screens and the Company's first IMAX® screen in the country, will become its flagship operation in Israel. This cinema is scheduled to open in June 2012. In Bulgaria, the Company plans to open a 10 screen multiplex in Burgas in May and a 14 screen multiplex in Sofia towards the end of the year. In the Czech Republic, an 8 screen multiplex in Ostava is planned to open in March. In Romania, the Company plans to open 2 multiplexes: one with 8 screens in Constanta in May and another one with 12 screens in Ploiesti towards the end of the year. In total, Cinema City plans to open at least 6 cinemas with almost 80 screens in 2012.

Palace Cinemas, already fully integrated with Cinema City's operations in the Czech Republic and Hungary should continue to improve in profitability. Further renegotiations of selected lease agreements, together with refurbishment programs of these premises should also bring additional financial benefits for the Group. As the Company has accomplished the reorganisation of Palace Cinemas, the 2012 financial results will not likely show 'one time' costs due to acquisition and integration, as was reflected in the 2011 results. 2012 will be also the first full year during which the Company will start benefiting from the newly reorganised Polish corporate structure.

Digitalisation of the Company's chain should be completed by the end of the first quarter of 2012, which should translate into a number of considerable benefits, both on the operational side by reducing operating expenses, and on the income side mainly by capturing the cash generative potential of 3D and alternative movie titles.

The Company continues to be very excited about its long-term growth prospects in Romania. Upon completion of the projects currently in the pipeline, Romania will become the Company's second largest country in terms of number of screens in operation, exceeded only by Poland. The Company currently has binding commitments for an additional 33 sites (representing approximately 350 screens) including 24 sites with approximately 230 screens in Romania, and has entered into negotiations in respect of a further number of sites. Notably, because the mall opening dates are dependent on the mall developers and there is a continuing tendency in the Romanian market to complete mall construction behind schedule, it remains difficult for the Company to accurately estimate the opening dates of its projects. The Company observes however that a number of malls continue to be developed and that the Company will be able to open new cinemas on this market. Nonetheless, 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.

The Company expects that the number of full time employees will grow in line with the number of new cinemas being opened in the coming years. The Company expects to finance its new projects from available cash and through bank loans.

Directors' Report

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. While management remains optimistic about the Company's ongoing growth prospects, there can be no assurance that the Company will not be materially adversely impacted if, among other potential negative trends, the European debt crisis leads to a 'contagion' into adjacent regions. Continued softness in consumer spending, could result in an ongoing 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.

* 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 2011 (15 March 2012), the following shareholders are entitled to exercise over 5% of voting rights at the General Meeting of Shareholders in the Company:

	As of 15 March 2012 Number of shares/ % of shares (1)	**Increase/ (decrease) Number of shares**	**As of 31 December 2011 Number of shares/ % of shares**(1)	**Increase/ (decrease) Number of shares**	**As of 31 December 2010 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	2,998,479 / 5.86%	-	2,998,479 / 5.86%	-.	2,998,479 / 5.86%
ING Powszechne Towarzystwo Emerytalne SA	2,680,095 / 5.23%	-	2,680,095 / 5.23%	n.a	n.a
BZ WBK TFI SA	2,661,049 / 5.20%	-	2,661,049 / 5.20%	-	2,661,049 / 5.20%

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 2011 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 2010 until 15 March 2012.

Changes in ownership of shares and rights to shares by Management Board members during 2011 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 15 March 2012 Number of shares/ % of shares	**Increase/ (decrease) Number of shares**	**As of 31 December 2011 Number of shares/ % of shares**	**Increase/ (decrease) Number of shares**	**As of 31 December 2010 Number of shares/ % of shares**
Moshe Greidinger*	11,253,028/ 21.98%	-	11,253,028/ 21.98%	1,666,898	9,586,130 / 18.72%
Amos Weltsch	None	-	None	-	None
Israel Greidinger*	11,253,028/ 21.98%	-	11,253,028/ 21.98%	1.666,898	9,586,130 / 18.72%

* The shares held by Messrs Moshe and Israel Greidinger are held indirectly through I.T. International Theatres Ltd. During 2011, Israel Theatres Ltd. purchased part of its own shares from a number of the shareholders. Towards the end of August 2011, Israel Theatres Ltd. redeemed its redeemable shares. As a result of these transactions, the number of shares indirectly held increased by 1,666,898 for each person.

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 2010 until 15 March 2012.

Changes in the composition of the Supervisory Board
On 15 October 2011, the Chairman of the Supervisory Board, Mr Coleman Greidinger passed away. On 14 November 2011, Mr Scott Rosenblum was appointed Chairman of the Supervisory Board.

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 2011, the Management Board assessed the effectiveness of the system of internal controls for financial reporting. During the investigation on which this assessment was based, 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 2012.

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 2011 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.

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.

Additional information to the report (cont'd)

Other

As of 31 December 2011, the Group has issued guarantees for loans that in total amount to EUR 9 million and PLN 453.1 (EUR 102.2) million in connection with loans provided to subsidiaries. For more additional information see note 23 (2) (b) to the consolidated financial statements.

As of 31 December 2011, 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 2011:

- a decrease in the provision for deferred tax liabilities of EUR 3,014,000;
- an increase in the provision for accrued employee retirement rights of EUR 115,000.

The Management Board

Moshe J. (Mooky) Greidinger President of the Board General Director	Amos Weltsch Management Board Operational Director	Israel Greidinger Management Board Financial Director

Rotterdam, 15 March 2012

Consolidated Statement of Financial Position

	Note	31 December 2011	2010
		EUR (thousands)	
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	*8*	**13,159**	801
Property and equipment	*9*	**263,917**	231,761
Deferred tax asset	*29*	**2,100**	2,030
Long-term receivable from related parties	*13*	**15,142**	-
Total non-current assets		**294,318**	234,592
CURRENT ASSETS			
Inventories	*10*	**6,652**	4,660
Receivables			
Trade accounts receivable	*11*	**14,758**	13,387
Receivable from related parties		**1,040**	15,622
Income taxes receivable		**604**	1,061
Other accounts receivable and prepaid expenses	*12*	**12,585**	11,546
Total receivables		**28,987**	41,616
Financial assets			
Foreign currency exchange contracts		**644**	90
Marketable securities		**24**	190
Total financial assets		**668**	280
Cash and short-term deposits			
Cash and cash equivalents	*14*	**9,277**	10,527
Short-term bank deposits - collateralised	*15*	**340**	329
Total cash and short-term deposits		**9,617**	10,856
Total current assets		**45,924**	57,412
TOTAL ASSETS		**340,242**	292,004

The notes on pages 45 to 101 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Note	31 December 2011	2010
		EUR (thousands)	
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	*16*		
Share capital		**512**	512
Share premium reserve		**92,144**	92,144
Accumulated currency translation adjustments		**(11,272)**	2,474
Hedge reserve		**451**	73
Retained earnings		**147,468**	126,527
Total equity attributable to equity holders of the Company		**229,303**	221,730
Non-controlling interests	*18*	**(2,071)**	(4,957)
Total equity		**227,232**	216,773
LONG-TERM LIABILITIES			
Long-term loans, net of current portion	*20*	**36,494**	19,066
Accrued employee retirement rights, net	*19*	**849**	734
Deferred tax liabilities	*29*	**3,391**	6,405
Financial lease	*23(1)f*	**1,080**	1,215
Other long-term liabilities		**179**	3,302
Total long-term liabilities		**41,993**	30,722
CURRENT LIABILITIES			
Short-term borrowings	*21*	**30,331**	12,111
Trade accounts payable		**17,414**	9,702
Payable to related parties		**210**	524
Employee and payroll accruals		**2,401**	2,036
Other accounts payable	*22*	**20,661**	20,136
Total current liabilities		**71,017**	44,509
Total liabilities		**113,010**	75,231
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**340,242**	292,004

*

The notes on pages 45 to 101 are an integral part of these consolidated financial statements.

Consolidated Income Statement

	Note	For the year ended 31 December 2011	2010
		EUR (thousands)	
Continuing operations			
Revenues from cinema related operations	*25*	**267,459**	234,549
Operating costs of cinema related operations	*26*	**225,663**	188,560
Gross margin from cinema related operations		**41,796**	45,989
Revenues from the sale of real estate		**-**	91,212
Operating costs of real estate sold		**-**	88,170
Gross margin from sale of real estate		**-**	3,042
Total revenues continuing operations	*25*	**267,459**	325,761
Total operating costs continuing operations	*26*	**225,663**	276,730
Gross margin continuing operations		**41,796**	49,031
General and administrative expenses		**13,789**	12,682
Acquisition-related and reorganisation expenses		**3,278**	-
Operating profit		**24,729**	36,349
Financial income	*27*	**634**	683
Financial expenses	*27*	**(4,074)**	(2,857)
Net finance expenses		**(3,440)**	(2,174)
Loss on disposals, and write-off of other investments	*28*	**(201)**	(101)
Operating income before taxation		**21,088**	34,074
Income tax benefit/(expense)	*29*	**286**	(4,038)
Net income from continuing operations		**21,374**	30,036
Discontinued operations			
Loss from discontinued operations	*24*	**-**	15
Net income before non-controlling interests		**21,374**	30,051
Attributable to:			
Equity holders of the Company		**20,925**	30,410
Non-controlling interests related to continuing operations	*18*	**449**	(350)
Non-controlling interests related to discontinued operations	*18*	-	(9)
Net income before non-controlling interests		**21,374**	30,051

The notes on pages 45 to 101 are an integral part of these consolidated financial statements.

Consolidated Income Statement

	Note	For the year ended 31 December 2011	2010
		EUR (thousands, except per share data)	
Net income attributable to equity holders of the Company		**20,925**	30,410
Earnings per share			
Weighted average number of shares	*17*	**51,200,000**	51,076,060
Weighted average number of shares (diluted)	*17*	**51,232,462**	51,118,786
Net earnings per share for profit attributable to the owners of the Company (basic and diluted)		**0.41**	0.59
Net earnings per share for profit from continuing operations attributable to the owners of the Company (basic and diluted)		**0.41**	0.59

The notes on pages 45 to 101 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	2011	2010
		For the year ended 31 December	
		EUR (thousands)	
Net income for the year		**21,374**	30,051
Other comprehensive income			
Foreign exchange translation differences	*29(IV)*	**(13,540)**	6,280
Effective portion in fair value of cash flow hedges, net of tax*	*29(IV)*	**378**	(1,201)
Other comprehensive income, net of tax		**(13,162)**	5,079
Total comprehensive income for the year		**8,212**	35,130
Attributable to:			
Equity holders of the Company		**7,557**	36,100
Non-controlling interest		**655**	(970)
Total comprehensive income for the year		**8,212**	35,130

* 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 45 to 101 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

	Share capital	Share premium	Trans-lation reserve	Hedge reserve	Retained earnings	Total	Non-controlling interests	Total equity
					EUR (thousands)			
Balance as of 1 January 2010	508	90,377	(4,417)	1,274	96,054	183,796	(3,987)	179,809
Issue of new shares (see Note 16 (a))	4	1,767	-	-	-	1,771	-	1,771
Share-based payments under the stock option plan (see Note 16 (d))	-	-	-	-	63	63	-	63
Net income for the year 2010	-	-	-	-	30,410	30,410	(359)	30,051
Foreign currency translation adjustment	-	-	6,891	-	-	6,891	(611)	6,280
Effective portion of changes in fair value of cash flow hedges, net of tax*	-	-	-	(1,201)	-	(1,201)	-	(1,201)
Balance as of 31 December 2010	512	92,144	2,474	73	126,527	221,730	(4,957)	216,773
Share-based payments under the stock option plan	**-**	**-**	**-**	**-**	**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**

* 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 31).

The notes on pages 45 to 101 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	For the year ended 31 December 2011	2010
		EUR (thousands)	
Cash flows from operating activities			
Operating profit		**24,729**	36,349
Discontinued operation adjustment to operating profit		**-**	225
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortisation	*26*	**25,417**	19,872
Decrease in provision related to onerous lease contracts		**-**	(349)
Increase in accrued employee rights upon retirement, net	*19*	**144**	57
Gain on sale of subsidiaries		**-**	(3,042)
Interest received		**634**	798
Interest paid		**(4,074)**	(3,109)
Income taxes paid		**(951)**	(3,464)
Operating income before working capital		**45,899**	47,337
(Increase)/decrease in inventories		**(2,156)**	645
(Increase)/decrease in trade accounts receivable		**(1,045)**	3,105
(Increase)/decrease in prepaid expenses and other account receivables		**(540)**	3,312
(Increase)/decrease/in receivable from tax authorities and others		**(1,051)**	1,606
Decrease in long-term film distribution costs and deferred expenses		**1,373**	452
Decrease in accounts and other payable		**(95)**	(1,618)
Increase in employee and payroll accruals		**86**	38
(Decrease)/increase in payable to related parties		**(590)**	366
Increase in receivables from related parties		**(305)**	(542)
Share-based payments	*16 (d)*	**16**	63
Net cash from operating activities		**41,592**	54,764
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	*7*	**(18,426)**	-
Purchase of property and equipment and other assets*		**(52,791)**	(44,022)
Investment in intangible assets**	*8*	**(4,065)**	(364)
Investment in investment properties**		**-**	(4,507)
Acquisition of held for sale financial assets		**-**	(4,507)
Sale of subsidiaries, net of cash disposed of		**-**	74,036
Proceeds from disposition of property and equipment and intangible assets		**117**	224
Short-term bank deposits – (collateralised)/released		**(14)**	(119)
Changes in payables to tax authorities related to investment activity		**-**	(8,493)
Changes in marketable securities		**109**	(12)
Net cash (used in)/provided by investing activities		**(75,070)**	12,236

* Taking into account movements in investment creditors.
** Taking into account movements in other non-cash activities.

The notes on pages 45 to 101 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Note	For the year ended 31 December 2011	2010
		EUR (thousands)	
Cash flows from financing activities			
Proceeds from long-term loans		**41,531**	12,782
Repayment of long-term loans		**(18,556)**	(96,961)
Decrease in long-term payables		**(1,390)**	(63)
Proceeds net, from new shares issued		**-**	1,771
Short-term bank credit, net increase		**11,368**	2,877
Net cash provided by/(used in) financing activities		**32,953**	(79,594)
Foreign currency exchange differences on cash and cash equivalents		**(725)**	704
Decrease in cash and cash equivalents		**(1,250)**	(11,890)
Cash and cash equivalents at beginning of year		**10,527**	22,417
Cash and cash equivalents at end of year	*14*	**9,277**	10,527

The notes on pages 45 to 101 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 2011, 53.89% of the outstanding shares are held by I.T. International Theatres Ltd. ('ITIT'), incorporated in Israel (31 December 2010: 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 *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 2011 including the Consolidated Financial Statements of the Group for the year ended 31 December 2011 are 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 2011.

The financial statements were authorised for issue by the directors on 15 March 2012.

The accounting policies set out below have been applied consistently for all periods presented in these Consolidated Financial Statements and by all group entities.

Certain comparative amounts have been reclassified to conform to the current year's presentation.

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.

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 ongoing 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.

Note 2 - Basis of preparation (cont'd)

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 36 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 Cyprus and the Slovakian operations is the euro.

(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.

Note 2 - Basis of preparation (cont'd)

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 2011	**25.70**	**312.03**	**4.43**	**1.29**	**4.94**	**4.32**
31 December 2010	25.29	280.03	3.97	1.33	4.74	4.30
Change during the period	**%**	**%**	**%**	**%**	**%**	**%**
2011 (12 months)	**1.62**	**11.43**	**11.59**	**(3.01)**	**4.22**	**0.47**
2010 (12 months)	(4.28)	2.71	(4.11)	(6.99)	(12.87)	1.18

	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)**
2011 (12 months)	**24.58**	**279.22**	**4.12**	**1.39**	**4.98**	**4.24**
2010 (12 months)	25.32	275.94	4.00	1.33	4.95	4.22
Change year over year	**%**	**%**	**%**	**%**	**%**	**%**
2011 (12 months)	**(2.92)**	**1.19**	**3.00**	**4.51**	**0.61**	**0.47**
2010 (12 months)	(4.38)	(1.85)	(7.83)	(4.32)	(9.51)	(0.71)

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 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 2011 insofar as endorsed by the EU as of the date of approval of these financial statements:

- IAS 24 *Related Party Transactions (amendment)* – applicable to annual reporting periods beginning on or after 1 January 2011. The standard has been amended to clarify the definition of a related party and to modify certain related-party disclosure requirements for government-related entities. The adoption of this amendment did not have any impact on the financial position or performance of the Group.
- IAS 32 *Financial Instruments: Presentation (amendment)* – applicable to annual reporting periods beginning on or after 1 February 2010. The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The adoption of this amendment did not have any impact on the financial position or performance of the Group.
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (amendment)* – applicable to annual reporting periods beginning on or after 1 January 2011. The Group is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position or performance of the Group.

Note 3 - Changes in accounting policies (cont'd)

- IFRIC 19 *Extinguishing financial liabilities with equity instruments* – applicable to annual reporting periods beginning on or after 1 July 2010. Clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The adoption of this interpretation did not have any impact on the financial position or performance of the Group.
- Improvements to IFRSs – in May 2010 the IFRS Board issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.
    - IFRS 3 *Business Combinations*:
        - Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS 3
        - The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
        - Un-replaced and voluntarily replaced share-based payment awards. The amendments did not have any effect on the financial position or performance of the Group (applicable to annual reporting periods beginning on or after 1 July 2010).
    - IFRS 7 *Financial Instruments – Disclosures:* emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments (applicable to annual reporting periods beginning on or after 1 January 2011). The Group has reflected the revised disclosure requirements in Note 31.
    - IAS 1 *Presentation of financial statements*: the amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements (applicable to annual reporting periods beginning on or after 1 January 2011). The Group has reflected the revised disclosure requirements in the Consolidated Statement of Changes in Shareholders' Equity.
- Amendments resulting from the improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:
    - IAS 27 *Consolidated and separate financial statements*
    - IAS 34 *Interim Financial Statements*
    - IFRIC 13 *Customer loyalty programmes*

Note 4 - Summary of significant accounting policies

A. 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 administrative expenses.

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.

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.

B. 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)

C. 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 net selling price 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.

D. 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) 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.

(5) 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 net selling price and value in use.

(6) 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)

E. 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, including impairment on inventories, 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. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

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.

F. 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. Cost of music cassettes is determined on the basis of the average purchase price. Net realisable value is the estimated selling price during the normal course of business, less the estimated costs of completion and variable selling expenses.

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

G. 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. 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. Interest income is recognised based on the agreement of the interest schedule.

(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 assets comprising investments that are held principally for the purpose of selling them in the short term and are thus classified as available for sale under current assets. 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. See 'Derivative financial instruments' under I.

H. 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.

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

I. 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 directly into equity in a separate hedge reserve net of deferred taxation. 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.

J. 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.

K. Employee benefits – defined contribution plans

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

L. 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 discounted cash flow approach.

M. 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)

N. Long-term loans and accruals and short-term liabilities

All long-term 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 31.
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.

O. 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.

P. 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) Revenues 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 is 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)

Q. 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.

(4) Cost of real estate sold, comprising mainly cost of land acquisition, capital expenditures and capitalised interest.

R. Net financing cost

Net financing costs 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.

S. 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.

T. Earnings per share

The computation of the basic earnings per share is determined on the basis of the weighted average par value of the issued and paid-in share capital 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 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)

U. Segment reporting

Segment information is presented in respect of the Group's business and geographical 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.

V. 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.

W. 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.

X. 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 2011, and have not been applied in preparing these consolidated financial statements:

- Amendment to IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit and loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and therefore has no impact on the Group's financial position or performance. Effective for financial years beginning on or after 1 July 2012.

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

- 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, The amendment is effective for financial years beginning on or after 1 January 2012. The adoption of this amendment is not expected to have a significant impact on the financial statements.
- Amendments to IAS 19 *Employee Benefits* – The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for financial years beginning on or after 1 January 2013. The adoption of this amendment is not expected to have a significant impact on the financial statements.
- Amendments to IFRS 7 *Financial Instruments – Enhanced Derecognition Disclosure Requirements* – The amendment requires additional disclosure about financial assets that have been transferred but not derecognised and about continuing involvement in derecognised assets – effective for financial years beginning on or after 1 July 2012. The extent of the impact of adopting this amendment has not yet been determined.
- IFRS 9 *Financial Instruments – Classification and Measurement* – This new IFRS (issued in November 2009 and October 2010) replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition – effective for financial years beginning on or after 1 January 2015. The extent of the impact of adopting this standard has not yet been determined.
- IFRS 10 *Consolidated Financial Statements* – This new IFRS was issued in May 2011. It replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for financial years beginning on or after 1 January 2013 . The adoption of this standard is not expected to have a significant impact on the financial statements.
- IFRS 12 *Disclosure of Interests in Other Entities* – This new IFRS (issued May 2011) includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard becomes effective for financial years beginning on or after 1 January 2013. The adoption of this standard is not expected to have a significant impact on the financial statements.
- The IASB also issued IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) and IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28 (2008). These standards become effective for financial years beginning on or after 1 January 2013. The extent of the impact of adopting this standard has not yet been determined.
- IFRS 13 *Fair Value Measurement* – This new standard establishes a single source of guidance under IFRS for all fair value measurements. This standard becomes effective for financial years beginning on or after 1 January 2013. The extent of the impact of adopting this standard has not yet been determined.

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 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. Zoo, I.T Poland Development 2003 Sp. Zoo, Forum Film Poland Sp. Zoo, 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.

Entities excluded from consolidation:

- Forum Film Home Entertainment Kft (this Company merged into I.T Magyar Cinemas Kft).

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.

B. Changes in consolidated entities during 2010

Entity newly in consolidation:

- Forum Film Romania s.r.l., 100% owned by the Company, was incorporated in Romania. This entity commenced operations in January 2011 and specialises in the distribution of movies in Romania.

Entities excluded from consolidation:

- IT Sofia B.V., the Netherlands, previously 100% owned by the Company
- IT Sofia 2007 B.V., the Netherlands, previously 100% owned by the Company
- Cinema City Malls B.V., the Netherlands, previously 100% owned by the Company
- Cinema City Stara Zagora B.V., the Netherlands, previously 100% owned by the Company
- Mall of Russe AD, Bulgaria, previously 100% owned by the Company
- Mall of Stara Zagora AD, Bulgaria, previously 55% owned by the Company
- RESB EOOD, Bulgaria, previously 100% owned by the Company

The interests in these entities have been sold in April 2011 as part of the transaction described in Note 9.

Other changes:

- New Age Cinema Czech s.r.o., 100% owned by the Company, transferred its advertising activities in the Czech Republic in the first quarter of 2011 to Cinema City Czech s.r.o. after which New Age Cinema Czech s.r.o. became dormant.

Note 7 - Business combinations - Acquisition

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 planned to be 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.
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**

Note 7 - Business combinations – Acquisition (cont'd)

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 revenue of approximately EUR 45 million.

Note 8 - Intangible assets

	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 fixed 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 fixed 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**

	Financial year 2010					
	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						
Other intangible assets	1,799	364	-	97	(41)	2,219
	1,799	364	-	97	(41)	2,219
Amortisation and impairment losses						
Other intangible assets	1,110	277	-	71	(40)	1,418
	1,110	277	-	71	(40)	1,418
Carrying value	689	87	-	26	(1)	801

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 investments in the development of Cinema Megaplex, 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 2011, 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 14.5% to the Hungarian operation and 11.0% to the Czech and Slovakian operations respectively, 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 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.

Notes to the Consolidated Financial Statements

Note 9 - Property and equipment (cont'd)

	Financial year 2010				
	Balance at beginning of year	Additions during the year (1)	Foreign currency translation adjustments	Sales and disposals	Balance at end of year
	EUR (thousands)				
Cost					
Land and buildings(2)	63,040	9,431	2,874	(11)	75,334
Cinema equipment(3)	128,915	20,424	5,787	(907)	154,219
Leasehold improvements	108,675	9,333	7,092	(786)	124,314
Computers, furniture and office equipment	7,409	368	644	(471)	7,950
Vehicles	1,660	398	144	(678)	1,524
	309,699	39,954	16,541	(2,853)	363,341
Accumulated depreciation					
Land and buildings	17,860	2,432	745	(3)	21,034
Cinema equipment	52,409	10,025	2,985	(904)	64,515
Leasehold improvements	31,273	6,118	2,505	(784)	39,112
Computers, furniture and office equipment	5,236	787	537	(406)	6,154
Vehicles	809	233	66	(343)	765
	107,587	19,595	6,838	(2,440)	131,580
Carrying value	202,112	20,359	9,703	(413)	231,761

(1) Included under 'Additions during the year – at cost' are borrowing costs amounting to EUR 353,000 capitalised using an average rate of 4.5%.

(2) The balance as of 31 December 2010 includes EUR 13,255,000 construction in progress.

(3) The balance as of 31 December 2010 includes EUR 63,000 in respect of cinema equipment not yet operational.

Note 10 - Inventories

Composition:

	31 December	
	2011	**2010**
	EUR (thousands)	
Concession products	**1,760**	1,431
Video cassettes and DVDs	**260**	354
IMAX® films inventories	**1,474**	1,671
Spare parts	**3,158**	1,204
	6,652	4,660

Valuation:

	31 December	
	2011	**2010**
	EUR (thousands)	
At cost	**6,652**	4,660
Provision for net realisable value	**-**	-
	6,652	4,660

All inventories included above are valued at cost.

Note 11 - Trade accounts receivable

Composition:

	31 December	
	2011	**2010**
	EUR (thousands)	
Trade accounts receivable	**14,884**	13,518
Allowance for doubtful accounts	**(126)**	(131)
	14,758	13,387

Note 12 - Other accounts receivable and prepaid expenses

Composition:

	31 December	
	2011	**2010**
	EUR (thousands)	
Government institutions	**2,599**	1,321
Advances to suppliers	**816**	742
Prepaid expenses	**6,264**	5,594
Prepaid cinema film and video film distribution costs[(1)]	**1,450**	2,948
Other	**1,456**	941
	12,585	11,546

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

Note 13 – Long-term receivable from related parties

At 21 April 2010, the Company sold all of its interests in these real estate development projects as well as the local management company, RESB EOOD, which is responsible for building and leasing these assets to its controlling shareholder, Israel Theatres Ltd. The sale of the Bulgarian real estate development projects was effectuated by a sale of the subsidiaries of the Company that are holding the interests in both projects, including other assets and liabilities of these subsidiaries transferred to the buyer. As a result of the transaction, the Company realised an additional gain of approximately EUR 3.0 million, which has been recognised in the year ended 31 December 2010.

Under the Company's April 2010 agreement to sell its Bulgarian real estate activities to Israel Theatres Ltd., Israel Theatres paid the Company EUR 76.2 million at the closing and agreed to pay a further EUR 15 million by no later than October 2011. On 23 October 2011, the Company signed a deferred payment agreement with Israel Theatres Real Estate Holding B.V. and Pan-Europe Finance B.V., both subsidiaries of Israel Theatres Ltd. (the 'Buyers') according to which the pending payment to the Company of the remaining EUR 15 million of the purchase price for assets related to the abovementioned Bulgarian real estate activities was deferred, while the period during which the Company will be entitled to a percentage of any potential gains to be realised by the Buyers has also been extended from end of 2014 until 31 December 2018.

The Buyers have requested the Company to defer the payment of the remaining EUR 15 million in the light of the deterioration of the real estate market in Bulgaria resulting in cancellation and/or renegotiation of lease agreements with tenants and in the necessity of re-leasing the space on much less favourable conditions with significantly reduced rents. The Company and the Buyers have agreed to the following new terms:

(1) EUR 5 million will be repaid to the Company no later than 22 October 2013, EUR 5 million will be repaid no later than 22 October 2014 and EUR 5 million will be repaid no later than 22 October 2015.

(2) Early repayment is possible without prepayment penalty. The unpaid amounts will bear interest payable annually as follows: 5% for the first year, 6% for the second year and 7% for the next two years, but, in each case, cannot amount to less than the Company's average external borrowing cost plus a margin of 1%.

(3) Between the second anniversary to the extended period until 31 December 2018, the Buyers are required to pay to the Company 25% of any gain realized if and when the Bulgarian real estate assets are sold to a third party.

(4) The Buyers have waived any claims against the Company in connection with the purchase and sale of the Bulgarian real estate in 2010.

Since Israel Theatres Ltd. indirectly also controls the majority of the shares in the Company, the new payment agreement was treated as a 'related-party transaction'. Consequently, the Supervisory Board of the Company formed a special committee of independent board members who, together with the Company's Audit Committee, considered and approved the execution of the new agreement.

Note 14 - 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	
	2011	**2010**
	EUR (thousands)	
Cash at bank and in hand	**9,229**	9,259
Short-term deposits	**48**	1,268
	9,277	10,527

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% (2010: 2.5%).

Note 15 - Short-term bank deposits - collateralised

In 2011, deposits with banks in Central Europe denominated in euros for a total amount of EUR 340,000 (2010: EUR 329,000) 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 1.25% on an annual basis.

Note 16 - 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 2011 was 51,200,000 and remained unchanged during the financial year ended 31 December 2011.

The number of issued and outstanding ordinary shares as at 1 January 2010 was 50,834,000. At 15 February 2010, in connection with the exercise of share options granted in prior years to employees, the Company issued 25,000 ordinary shares (see Note 16 d). In April 2010, a further 341,000 share options granted in prior years to employees, were exercised (see also Note 16 d). Initially, these shares were made available to the option holders by the Company's largest shareholder, I.T. International Theatres Ltd. Following the exercise of the options, on 11 May 2010, the Company issued 341,000 new ordinary shares to I.T. International Theatres Ltd. to facilitate the exercise of the share options.
As a result of the issue of new shares in February and May 2010, the total number of issued and outstanding ordinary shares increased during the year ended 31 December 2010 to 51,200,000. The total proceeds of the 366,000 new ordinary shares issued during the year ended 31 December 2010 amounted to EUR 1,771,000.

All shares issued and outstanding at 31 December 2011 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, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Note 16 - Shareholders' equity (cont'd)

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.

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 the Plan.

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 (see Note 16 a). 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 (see Note 16 a). 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 5.64. The number of exercisable options at 31 December 2011 is 125,000.

The details of the number of options outstanding as at 31 December 2011 are as follows:

	Exercise price	Number of options			
Vesting date		**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 options using the Black-Scholes valuation model have been calculated using the following significant assumptions as input into the model:

	Input of assumptions						Fair value per option
Grant date	**Exercise price**	**Weighted average share price**	**Volatility***	**Dividend yield**	**Option life (years)**	**Annual risk free rate**	
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.

Note 16 - Shareholders’ equity (cont’d)

d. Share options (cont’d)

During the financial year ended 31 December 2011, the term of no options has been lapsed (during the financial year ended 31 December 2010, the term of 43,000 options has been lapsed). The impact of the share-based payment on the financial statements of the Company for the financial year 2011 was an expense of EUR 16,000 (2010: EUR 63,000) recognised in the income statement with a corresponding increase in equity.

Note 17 - Net earnings per share

The calculation of basic and diluted net earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders of EUR 20,925,000 (2010: EUR 30,410,000), and a weighted average number of ordinary shares outstanding as presented below:

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

	Financial year	
	2011	**2010**
	number of shares	
Number of ordinary shares at beginning of the year	**51,200,000**	50,834,000
Effect of shares issued during the year	**-**	242,060
Weighted average number of ordinary shares (basic)	**51,200,000**	51,076,060
Effect of share options issued and outstanding	**32,462**	42,726
Weighted average number of ordinary shares (diluted)	**51,232,462**	51,118,786

Note 18 - Non-controlling interests

	Financial year	
	2011	**2010**
	EUR (thousands)	
Balance at beginning of the year	**(4,957)**	(3,987)
Non-controlling interests in earnings/(losses) related to continuing operations	**449**	(350)
Non-controlling interests in losses related to discontinued operations	**-**	(9)
Translation adjustments	**206**	(611)
Classification of minority shareholders' loan to non-controlling interest	**2,231**	-
Balance at end of the year	**(2,071)**	(4,957)

The (non-controlling) shareholders are committed to cover any deficits and losses realised by the relevant subsidiaries to the extent of their interest in these subsidiaries.

Note 19 - 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 2011: 1.74% (0.82% at 31 December 2010)
- Expected return on plan assets at 1 January 2012: 2.60% (2.50% at 1 January 2011)

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

	31 December 2011	31 December 2010
	EUR (thousands)	EUR (thousands)
Present value of unfunded obligation	**2,670**	2,530
Less: Fair value of plan assets	**(1,821)**	(1,796)
	849	734

Note 19 - Accrued employee retirement rights (cont'd)

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

	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**

	Financial year 2010		
	Gross amount	Amount deposited	Net amount
	EUR (thousands)		
Balance at beginning of the year	2,026	(1,439)	587
Translation difference	309	(219)	90
Payments made upon retirement	-	(74)	(74)
Net movement in provision - charged to net profit	195	(64)	131
Balance at end of the year	2,530	(1,796)	734

Note 20 - Long-term loans

A. ***Composition:***

	Interest rates [1]	31 December 2011	2010
	%	EUR (thousands)	
In CZK	3.73%	**2,832**	3,487
In EUR	EURIBOR 3M + 1.5% - 2.2% EURIBOR 1M+3.75%	**16,860**	9,022
In HUF	7.63%	**860**	1,380
In PLN	WIBOR + 1.95%	**28,996**	10,596
		49,548	24,485
Less: current portion		**(13,054)**	(5,419)
		36,494	19,066

[1] The interest rates shown concern the rates per 31 December 2011.

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

	31 December 2011	2010
	EUR (thousands)	
First year - current maturities	**13,054**	5,419
Second year	**11,274**	6,517
Third year	**10,598**	4,641
Fourth year	**7,943**	4,415
Fifth year	**374**	1,259
Sixth year and thereafter	**6,305**	2,234
	49,548	24,485

C. ***Liens*** - see Note 23 (2).

Note 21 - Short-term borrowings

Composition:

		31 December	
	Interest rates [1]	**2011**	**2010**
	%	**EUR (thousands)**	
Current maturities of long-term loans	See Note 20	**13,054**	5,419
Short-term bank credit:			
Unlinked (NIS)	5.0%	**10,197**	6,675
In PLN	Wibor 1M+1.5%	**7,080**	-
In euros		**-**	17
		30,331	12,111

[1] The interest rates shown concern the rates per 31 December 2011.

Note 22 - Other accounts payable

Composition:

	31 December	
	2011	**2010**
	EUR (thousands)	
Investment creditors	**2,628**	654
Accrued expenses	**12,540**	13,340
Deferred income	**1,397**	2,642
Government institutions	**1,002**	1,760
Advances and income received in advance	**119**	114
Income tax payables	**2,380**	1,150
Other	**595**	476
	20,661	20,136

Note 23 - 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 2011. 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 2011 are 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.

Future minimum lease payments under non-cancellable operating leases from third parties for the years after 31 December 2010 were as follows:

	EUR (thousands)*
2011	25,372
2012	26,014
2013	26,005
2014	26,522
2015	26,882
After 2015	103,636
	234,431

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

Rental expenses for theatres during 2011 amounted to EUR 30,442,000 (2010: EUR 23,506,000).

Note 23 - Commitments, liens and contingent liabilities (cont'd)

b. As at 31 December 2011, the Group has unpaid commitments to invest in the development of properties of approximately EUR 15.5 million (31 December 2010: EUR 2.6 million) and has further commitments to acquire cinema equipment of approximately EUR 8.7 million (31 December 2010: EUR 8.6 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 2011 is around USD 7 million, whereas during the first few months of 2012 until the date of these Consolidated Financial Statements, agreements were signed for a total amount of USD 3 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 2011 amounted to EUR 1,080,000 (31 December 2010: EUR 1,215,000), 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 31.

(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) outstanding 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) ITIT has agreed to guarantee 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 2011 and as at 31 December 2011.

Note 23 - Commitments, liens and contingent liabilities (cont'd)

(2) **Liens (cont'd)**

b. The local subsidiaries in Poland and the Czech Republic have obtained financing from banks for some of the cinema complex projects. The securities given include: mortgage on the assets of the financed projects, pledge on the shares of the subsidiaries, and an assignment of all revenues and insurance policies of the projects. During the financial year 2011, the Company provided a guarantee for new facilities to a Polish bank totalling PLN 265.1 million (EUR 64.4 million). The Company's Polish subsidiary provided the bank with several securities consisting mainly of an ordinary joint mortgage on its interest in several real estate investments in Poland. The Polish and the Czech subsidiaries undertook to meet several financial covenants. As at 31 December 2011, the Company had issued a guarantee for EUR 9.0 million to a Polish bank in connection with a loan provided to a subsidiary. In addition, the Company has issued a guarantee for a total amount of PLN 453.1 million (EUR 102.2 million) issued to a Polish bank in order to secure several loan agreements with this bank. As of 31 December 2011, the Polish subsidiary bank debt is PLN 170.6 million (EUR 38.5 million).

c. In order to secure an outstanding loan from a Hungarian bank of approximately EUR 1.8 million (2010: EUR 2.8 million), a subsidiary company has provided to the bank the following: (i) a registered first degree fixed lien on its outstanding share capital and goodwill; (ii) a first degree floating lien on its assets, including insurance benefits in respect of the assets and rights of any kind which the subsidiary has or will have in the future; (iii) that the assets of the subsidiary will not be pledged and the lien cannot be transferred without the agreement of the bank.

d. In order to secure an outstanding loan from a Bulgarian bank of approximately EUR 2.0 million (2010: EUR 2.4 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.

e. In connection with the sale of the real estate in Bulgaria to Israel Theatres Ltd. as described in Note 13, 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.

f. 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.

Note 23 - 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 2011, the Group is not involved in any litigations or proceedings except for the following:
Cinema City Poland Sp.Zoo (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 audiovisual 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 24 - Discontinued operations

Towards the end of 2009, the Company decided to terminate its DVD distribution activities in Hungary as well as in the Czech Republic. The film distribution activities in these two countries have been taken place in an unpredictable market environment making it difficult for management to derive real growth and profitability from this segment. The consolidated income statement for the financial year ended 31 December 2010 comprises the results from film distribution activities in Hungary and the Czech Republic which were discontinued in 2010.

Note 25 - Revenues

	Continuing operations		**Discontinued operations (see Note 24)**		**Total**	
			Financial year			
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
			EUR (thousands)			
Theatre sales	**243,782**	215,452	-	-	**243,782**	215,452
Distribution	**21,772**	16,991	-	2,904	**21,772**	19,895
Other cinema-related revenues	**1,905**	2,106	-	-	**1,905**	2,106
Total cinema-related revenues*	**267,459**	234,549	-	2,904	**267,459**	237,453
Sale of real estate*	-	91,212	-	-	-	91,212
Total revenues	**267,459**	325,761	-	2,904	**267,459**	328,665

Note 26 - Operating costs

	Continuing operations		Discontinued operations (see Note 24)		Total	
	Financial year					
	2011	2010	2011	2010	2011	2010
	EUR (thousands)					
Costs of theatre sales	**181,614**	152,399	-	-	**181,614**	152,399
Distribution costs	**17,995**	15,598	-	2,358	**17,995**	17,956
Depreciation and amortisation	**25,417**	19,817	-	55	**25,417**	19,872
Other cinema-related costs	**637**	746	-	-	**637**	746
Total cinema-related operating costs*	**225,663**	188,560	-	2,413	**225,663**	190,973
Sale of real estate*	-	88,170	-	-	-	88,170
Total operating costs	**225,663**	276,730	-	2,413	**225,663**	279,143

* In order to allow the reader to compare these annual results to last year's annual results, revenues (and corresponding costs and gross results) are presented in two main categories: (a) revenues, costs and gross results from cinema related operations and (b) revenues, costs and gross results from the sale of real estate. This presentation format should allow for a better understanding of the Company's core operating results with and without the significant additional revenues that were generated last year from the sale of the Company's Bulgarian real estate assets.

Note 27 - Financial income/expenses

A. Financial income

	Financial year	
	2011	2010
	EUR (thousands)	
Interest income	**574**	369
Currency exchange gains	**60**	427
Total financial income consolidated	**634**	796
Less: Financial income of discontinued operations (see Note 24)	**-**	(113)
Total financial income of continuing operations	**634**	683

B. Financial expenses

	Financial year	
	2011	2010
	EUR (thousands)	
Interest expenses incurred	**(4,042)**	(2,816)
Interest cost capitalised (1)	**815**	353
Currency exchange losses	**(847)**	(572)
Total financial expenses consolidated	**(4,074)**	(3,035)
Less: Financial expenses of discontinued operations (see Note 24)	**-**	178
Total financial expenses of continuing operations	**(4,074)**	(2,857)

(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 28 - Loss on disposals, write-off on other investments and other costs

This item comprises mainly capital losses on the disposal of property, equipment and other assets.

Note 29 - Taxation: deferred tax assets, deferred tax liabilities and income tax 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 tax legislation.
2. Tax rates applicable to the Company and its subsidiaries are as follows:

The subsidiary	Tax rate
Netherlands	25% - (2010 - 25.5%)
Hungary	10% - (2010 - 10%)
Czech Republic	19% - (2010 - 19%)
Poland	19% - (2010 -19%)
Israel	24% - (2010 - 25%)
Bulgaria	10 % - (2010 - 10%)
Romania	16 % - (2010 - 16%)
Slovakia	19% - (2010 -19%)
Cyprus	10% - (2010 – 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.

Note 29 - Taxation: deferred tax assets, deferred tax liabilities and income tax expense (cont'd)

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	
	2011	**2010**
	EUR (thousands)	
Accrued employee rights	**211**	168
Fixed assets	**(148)**	1
Operating tax loss carry-forwards	**1,866**	1,835
Other	**171**	26
	2,100	2,030

Deferred income tax included in liabilities:	31 December	
	2011	**2010**
	EUR (thousands)	
Accrued employee rights	**(161)**	(121)
Fixed assets	**3,529**	7,126
Operating tax loss carry-forwards	**-**	(242)
Long-term liabilities	**-**	(586)
Other	**23**	228
	3,391	6,405

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 2011 amount to EUR 18,645,000 (as at 31 December 2010: EUR 10,169,000).
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 2011 amount to EUR 9,433,000 (as at 31 December 2010: nil).

III. Income tax expense in the income statement

Composition:	**Financial year**	
	2011	**2010**
	EUR (thousands)	
Current taxes	**1,996**	2,748
Deferred income taxes	**(2,820)**	1,319
In respect of previous years	**538**	(29)
Income tax (benefit)/expense from continuing operations	**(286)**	4,038
Income tax expense from discontinued operations (see Note 24)	**-**	175
Total income tax expense	**(286)**	4,213

Note 29 - Taxation: deferred tax assets, deferred tax liabilities and income tax expense (cont'd)

IV. Income tax recognised in other comprehensive income

	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)**

	Financial year 2010		
	Before tax	Tax (expense)/ benefit	Net of tax
	EUR (thousands)		
Foreign exchange translation differences	6,280	-	6,280
Effective portion in fair value of cash flow hedges	(1,484)	283	(1,201)
Total other comprehensive income	4,796	283	5,079

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	
	2011	2010
	EUR (thousands)	
Tax calculated at the regular rate (2011: 25%; 2010: 25.5%)	**5,272**	8,737
Adjustment for reduced tax rate in foreign subsidiaries	**(1,758)**	(1,376)
Effect of reduction in tax rates on deferred income taxes *	**(2,030)**	(21)
Non-deductible expenses	**141**	211
Recognition of previously unrecognized tax losses	**(122)**	(1,461)
Income exempt from taxes (*)	**(3,373)**	(1,539)
Taxes in respect of previous years	**538**	188
Other differences	**1,046**	(526)
Total recognised income tax (benefit)/expense	**(286)**	4,213
Tax recognised in income from continuing operations	**(286)**	4,038
Tax recognised in income from discontinued operations	**-**	175
	(286)	4,213

* 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 is expected to bring organisational benefits and to enable tax optimisation when managing the operational companies starting from the fourth quarter of 2011.

Note 30 - 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 (2010: 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	
	2011	**2010**
	EUR (thousands)	
Rental fees	**(651)**	(716)
Management services	**397**	386

All outstanding balances with these related parties are priced on an arm’s length basis. None of the balances is secured.

b. Israel Theatres Ltd. (the parent company of ITIT) is leasing real estate properties on which three of the Company’s theatres are located to the Company. The annual lease payments for the above properties aggregated to EUR 266,981 (denominated in NIS and linked to the Israeli CPI Index).

c. Pursuant to the management services agreement between the Company and Israel Theatres Ltd., the Company will provide 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 397,000 (denominated in NIS and linked to the Israeli CPI Index).

Note 30 – Related-party transactions (cont'd)

Transactions with related parties (cont'd)

d. Forum Film Ltd. leases offices and storage space in Herzelia from Israel Theatres Ltd. for a consideration of EUR 8,418 (NIS 41,900) per month. Israel Theatres Ltd. leases offices in Herzelia to IT-2004 for a consideration of EUR 10,088 (NIS 49,816) per month and leased office in Haifa to IT- 2004 for consideration of EUR 8,500 (NIS 42,000) per month until May 2011, when the office building in Haifa was sold to a third party. The rental fees are linked to the Israeli CPI and are at market rates and terms.

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 67,000 per month.

   In addition, the Managing Directors are entitled to an annual bonus aggregating to 7% 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. During the financial years 2011 and 2010, no share options have been granted to members of the Management Board.

   The Managing Directors of the Company received remuneration totalling EUR 2,388,000 (2010: EUR 3,338,000). The members of the Supervisory Board received fees totalling EUR 128,000 (2010: EUR 131,000). 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 years 2011 and 2010.

Note 30 - Related party transactions (cont'd)

The remuneration for the Managing Directors is divided between the Managing Directors as follows:

	Financial year	
	2011	**2010**
	EUR (thousands)	
General director:		
Salary and other short-term benefits	**282**	261
Post-employment benefits	**15**	15
Management bonus	**794**	1,269
	1,091	1,545
Operational director:		
Salary and other related costs	**235**	263
Post-employment benefits	**13**	13
Management bonus	**397**	635
	645	911
Financial director:		
Salary and other related costs	**242**	234
Post-employment benefits	**13**	13
Management bonus	**397**	635
	652	882
Total	**2,388**	3,338

The remuneration for the Supervisory Board members is principally divided equally.
Total compensation to key management personnel amounts to EUR 2,516,000 (2010: EUR 3,469,000), EUR 2,475,000 relates to short-term employee benefits (2010: EUR 3,428,000), EUR 41,000 to post-employments benefits (2010: EUR 41,000).

Forum Film Ltd., a 50% 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.
The 50% of Norma Film not owned by the Company is held by I.M. Greidinger Investment Ltd., in which both Mr Moshe Greidinger and Mr Israel Greidinger each hold a 50% interest.

g. The non-controlling interests mainly represent a 50% indirect share in the equity of Forum Film Ltd. by I.M. Greidinger Investment Ltd. (see Note 30 (f)). Pursuant to Forum Film Ltd.'s Articles of Association, the Company has the right to appoint three of Forum Film Ltd.'s five directors, and accordingly, maintains control over all major company decisions.

Note 30 - Related party transactions (cont'd)

h. 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.

i. 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). Israel Theatres Ltd. is 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.
In 2010, Israel Theatres Ltd. through subsidiaries, purchased the company's Bulgarian real estate development activities and assets and in 2011 the company signed a deferred payment agreement with Israel theatres subsidiaries for the remaining EUR 15 million of the purchase price for the Bulgarian real estate sale in 2010 as described in Note 13.

j. 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 and video rental 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.

k. On 11 May 2010, the Company issued 341,000 new ordinary shares to I.T. International Theatres Ltd. to facilitate the exercise of share options granted in prior years to employees. During 2011 no new shares were issued.

Note 31 - 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 2011 and 2010, 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 (I).

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.

(i) 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.

(ii) Interest rate risk

The Group has no significant interest-bearing assets. The Group's interest rate risk arises from long-term borrowings. For its long-term borrowings, the Group adopts a policy of a mixture of flat and floating interest rates (see Notes 20 and 21). At 31 December 2011 and 2010, the Group has no borrowings at fixed rates of interest.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing and renewal of existing positions. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on interest cost of a 1% shift in interest rate would be a maximum decrease of EUR 457,000 (2010: EUR 456,000).

Note 31 - Financial instruments and financial risk management (cont'd)

Market risk (cont'd)

(ii) 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. 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 +/- 6.57%;
(b) the euro versus the US dollar by +/- 10.96%;
(c) the euro versus the New Israeli shekel by +/- 8.35%;
(d) the US dollar versus the Czech crown, the Hungarian forint, the Romanian new lei or the Polish zloty by +/- 14.36%;
(e) the US dollar versus the New Israeli shekel by +/- 7.32%.

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 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**

Total effect on profit/(loss)	**Financial year 2010**				
	EUR vs CZK, HUF or PLN	**EUR vs USD**	**EUR vs NIS**	**USD vs CZK, HUF or PLN**	**USD vs NIS**
	EUR (thousands)				
Total assets/(liabilities)	(580)	353	147	127	(543)
Reasonable shift	8.7%	11.8%	10.5%	16.0%	9.1%
Total effect on profit of positive movement	214.3	21.6	10.3	1,238.6	6.8
Total effect on profit of negative movement	(214.3)	(21.6)	(10.3)	(1,238.6)	(6.8)

Note 31 - Financial instruments and financial risk management (cont'd)

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	
	2011	**2010**
	EUR (thousands)	
Trade receivables	**14,758**	13,387
Receivables from related parties	**16,182**	15,622
Other receivables	**12,585**	11,546
Non-marketable securities held for sale	**24**	190
Cash and cash equivalents*	**7,049**	9,261
Short-term bank deposits	**340**	329
Foreign currency exchange contracts	**644**	90
	51,582	50,425

* The rest of 'Cash and cash equivalents' is cash at hand.

Note 31 - 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	
	2011	**2010**
	EUR (thousands)	
Trade receivables:		
Counterparty without / with unknown external credit rating		
Group 1*	**12,715**	11,472
Group 2**	**1,667**	1,810
Group 3***	**376**	105
Total Trade receivables	**14,758**	13,387
Cash at banks and short-term bank deposits		
AAA	**6,382**	8,334
AA	**448**	409
A	**219**	518
Total Cash at bank****	**7,049**	9,261

* Group 1 – new receivables (less then 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 126,000 and EUR 131,000 for 31 December 2011 and 2010, respectively).

Note 31 - 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 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**

	As at 31 December 2010			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	EUR (thousands)			
Borrowings	5,419	6,517	10,315	2,234
Other long-term payables	120	120	1,335	2,942
Current liabilities*	29,330	312	-	-

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

Derivative financial instruments

As at 31 December 2011 and 31 December 2010, the Company has hedged some of its US dollar and euro expenses through 2011 and 2010 in respect of its Polish, Hungarian and Czech theatre operations, against the Polish zloty, the Hungarian forint and the Czech crown, respectively. In connection with these obligations, the Company has entered into the following forward foreign exchange contracts:

- contracts comprising a commitment to buy USD 400,000 at the beginning of each month until May 2012 at fixed prices denominated in Polish zloty;
- contracts comprising a commitment to buy USD 255,000 at the beginning of each month until May 2012 at fixed prices denominated in Hungarian forint;
- contracts comprising a commitment to sell USD 600,000 at the middle of January 2012 at fixed prices denominated in Polish zloty;
- contracts comprising a commitment to sell EUR 5,600,000 at the middle of January 2012 at fixed prices denominated in Polish zloty.

Note 31 - Financial instruments and financial risk management (cont'd)

Derivative financial instruments (cont'd)

These forward foreign exchange contracts have been valued in the Consolidated Statement of Financial Position as at 31 December 2011 at their fair value.

The change in fair value of contracts that are effective hedges is booked directly 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 as described above. Amounts are released from the hedge reserve to profit or loss when the future transaction is settled.

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 2011		As at 31 December 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	EUR (thousands)			
Financial assets				
Trade accounts receivable	**14,758**	**14,758**	13,387	13,387
Receivables from related parties	**16,182**	**16,182**	15,622	15,622
Income taxes receivable	**604**	**604**	1,061	1,061
Receivable from government institutions	**2,599**	**2,599**	1,321	1,321
Other receivables	**9,986**	**9,986**	10,225	10,225
Marketable securities	**24**	**24**	190	190
Cash and cash equivalents	**9,277**	**9,277**	10,527	10,527
Short-term bank deposits	**340**	**340**	329	329
Foreign currency exchange contracts	**644**	**644**	90	90
Total financial assets	**54,414**	**54,414**	52,752	52,752
Financial liabilities				
Bank loans	**(49,548)**	**(49,548)**	(24,485)	(24,485)
Short-term bank credits	**(17,277)**	**(17,277)**	(6,692)	(6,692)
Financial leases	**(1,080)**	**(1,080)**	(1,215)	(1,215)
Other long-term liabilities	**(179)**	**(179)**	(3,302)	(3,302)
Trade payables	**(17,414)**	**(17,414)**	(9,702)	(9,702)
Payables to related parties	**(210)**	**(210)**	(524)	(524)
Investment creditors	**(2,628)**	**(2,628)**	(654)	(654)
Accrued expenses	**(12,540)**	**(12,540)**	(13,340)	(13,340)
Payable to government institutions	**(1,002)**	**(1,002)**	(1,760)	(1,760)
Other payables	**(4,491)**	**(4,491)**	(4,382)	(4,382)
Total financial liabilities	**(106,369)**	**(106,369)**	(66,056)	(66,056)

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Note 31 - 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 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**

	As at 31 December 2010		
	Level 1	**Level 2**	**Total**
	EUR (thousands)		
Marketable securities	190	-	190
Cash and cash equivalent *	9,261	-	9,261
Derivative financial assets (Foreign currency exchange contracts)	-	90	90
	9,451	90	9,541

* Not including cash at hand

During 2011, there have been no transfers between Level 1 and Level 2 in 2011 (2010: no transfers in either direction).

Note 32 - 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 2011 and 31 December 2010.

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 2011 and 2010 were as follows:

	31 December	
	2011	**2010**
	EUR (thousands)	
Bank debt:		
Long-term borrowings, including current portion	**49,548**	24,485
Short-term bank credit	**17,277**	6,692
Total debt	**66,825**	31,177
Cash and cash equivalents	**(9,277)**	(10,527)
Net debt	**57,548**	20,650
Construction in progress (see Note 9)	**(23,046)**	*(13,255)
Cinema equipment not operated yet (see Note 9)	**(134)**	(63)
Net debt financing assets in operation	**34,368**	7,332
Total equity	**229,303**	221,730
Total capital employed	**263,671**	229,062
Gearing ratio	**25.1%**	9.3%
Leverage	**21.8%**	9.0%

* Reclassified for comparison purposes

Note 33 - Linkage terms of monetary items

	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 and prepaid expenses	**918**	**5,164**	**6,503**	**12,585**
Receivable from related parties	**15,242**	**-**	**940**	**16,182**
Marketable securities	**-**	**-**	**24**	**24**
Foreign currency exchange contracts	**-**	**159**	**485**	**644**
	20,581	**13,473**	**20,360**	**54,414**
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	**1,078**	**7,381**	**12,202**	**20,661**
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	**50,342**	**37,398**	**108,360**

	31 December 2010			
	In or linked to EUR	**In or linked To PLN**	**In or linked to foreign currencies**	**Total**
	EUR (thousands)			
Assets				
Cash and cash equivalents	1,782	3,213	5,532	10,527
Short-term bank deposits - collateralised	329	-	-	329
Trade accounts receivable	54	6,359	6,974	13,387
Income tax receivable	-	-	1,061	1,061
Other accounts receivable and prepaid expenses	537	4,834	6,175	11,546
Receivable from related parties	14,836	-	786	15,622
Marketable securities	109	-	81	190
Foreign currency exchange contracts	-	90	-	90
	17,647	14,496	20,609	52,752
Liabilities				
Short-term bank credit	17	-	6,675	6,692
Trade accounts payable	304	3,449	5,949	9,702
Employee and payroll accruals	-	214	1,822	2,036
Other accounts payable	1,662	9,049	9,425	20,136
Payable to related parties	-	-	524	524
Long-term loans (including current portion**)**	9,022	10,596	4,867	24,485
Accrued employee rights upon retirement	-	-	734	734
	11,005	23,308	29,996	64,309

Note 34 - 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.
- DVD distribution (discontinued – see Note 24)
- Other – this includes the Company's cinema-related real estate activities and the sale of real estate.

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.

Business segments

	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**
Non-controlling interests					**(449)**
Net income					**20,925**

	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**

Note 34 - Segment reporting (cont'd)

	Financial year 2010 EUR (thousands)							
	Theatre operations	**Distribution**	**DVD distribution (discontinued)**	**Other**	**Eliminations**	**Consolidated**	**Less: discontinued operations**	**Continuing operations**
Revenues								
External sales	215,452	16,991	2,904	93,318	-	328,665	2,904	325,761
Inter-segment sales*	52	12,247	14	-	(12,313)	-	-	-
Total revenues	215,504	29,238	2,918	93,318	(12,313)	328,665	2,904	325,761
Results								
Segment result before depreciation, amortisation & impairment write-downs	53,222	83	280	2,861	-	56,446	280	56,166
Depreciation, amortisation & impairment write-downs	19,551	178	55	88	-	19,872	55	19,817
Segment result	33,671	(95)	225	2,773		36,574	225	36,349
Financial income						796	113	683
Financial expenses						(3,035)	(178)	(2,857)
Loss on disposals						(71)	30	(101)
Income tax expense						(4,213)	(175)	(4,038)
Non-controlling interests						359	9	350
Net income						30,410	24	30,386

	31 December 2010 EUR (thousands)					
	Theatre operations	**Distribution**	**DVD distribution (discontinued)**	**Other**	**Unallocated**	**Consolidated**
Segment assets*	267,361	6,097	372	16,144	2,030	292,004
Segment liabilities	27,306	7,076	2,661	606	37,582	75,231
Capital expenditure	39,947	361	-	4,511	-	44,819

* Reclassified for comparison purposes.

Note 34- 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 segments. Determination of geographical segments is based on location of assets and is identical to customer location.

31 December 2011 EUR (thousands)						
	Poland	**Israel**	**Hungary**	**Other**	**Unallocated**	**Consolidated**
Revenues						
External sales	**115,451**	**46,766**	**38,709**	**66,533**	**-**	**267,459**
Non-current assets						
Segment assets	**115,793**	**53,461**	**23,464**	**99,500**	**2,100**	**294,318**
Capital expenditure	**9,957**	**17,190**	**11,265**	**20,049**	**-**	**58,461**

31 December 2010 EUR (thousands)						
	Poland	**Israel**	**Hungary**	**Other**	**Unallocated**	**Consolidated**
Revenues						
External sales	119,139	48,497	27,091	*131,034	-	325,761
Non-current assets						
Segment assets	130,040	41,839	13,197	47,486	2,030	234,592
Capital expenditure	11,362	13,988	2,111	17,358	-	44,819

* Include revenue in amount of EUR 91,212,000 from the sale of real estate.

Note 35 - Personnel

Personnel costs are specified as follows:

	31 December	
	2011	**2010**
	EUR (thousands)	
Salaries and wages	**25,200**	19,614
Pension costs	**1,611**	1,215
Other social charges	**4,149**	2,914
Share-based payments under the share option plan (see Note 16(d))	**16**	63
Total personnel costs	**30,976**	23,806

For 2011 and 2010, 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 purchase of Palace and new cinemas opened in 2011 and 2010.

The average number of personnel, in full-time equivalents, employed by the Company and its subsidiaries and joint ventures during the year 2011 was 3,094 (financial year 2010: 2,558). A geographical allocation of the average number of personnel is as follows:

	31 December	
	2011	**2010**
Israel	**325**	325
Poland	**1,229**	1,300
Hungary	**468**	319
Other Central Europe*	**1,072**	614
Total average number of personnel	**3,094**	2,558

* Including the Czech Republic, Bulgaria, Slovakia and Romania.

Note 36 - Details of corporations in the Group

	31 December 2011*			
	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.Zoo	100%	100%	Full	(4)
IT Development 2003 CC Sp.Zoo. 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.Zoo S.K.A	100%	100%	Full	(4)
Forum Film Poland CC Sp.Zoo S.K.A	100%	100%	Full	(4)
All Job Poland CC Sp. Zoo S.K.A	100%	100%	Full	(4)
Cinema City Poland Sp.Zoo CC spolka komandytowa	100%	100%	Full	(4)
Forum 40 Fundus Inwestycyjny Zamkniety	100%	100%	Full	(4)
Norma Film Ltd.	60%	50%	Full	(6)
Forum Film Ltd.	60%	50%	Full	(6)
Ya'af - Giant Video Library Network Ltd.**	60%	30%	Full	(6)
Ya'af – Automatic Video Machines Ltd.	60%	50%	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)

(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) Cypriotic corporation.

* *The details of corporations during the financial year ended 31 December 2010 were similar to the details of corporations as at 31 December 2011 as shown above, except for changes during the financial year 2011 disclosed in Note 6.*

** *Included the discontinued operations in 2010.*

*** *Previously named New Age Cinema Czech s,r.o. (see Note 6).*

**** *Previously named Palace Multikino s.r.o. ; merged with Palace Cinemas Slovak Republic s.r.o. (see Note 6).*

Note 37 - Interest in joint ventures

As at December 2011 and 2010, the interest in joint ventures includes a 50% interest (indirectly held) in an Israeli joint venture, Kafan et Anak limited partnership, which was operating a video chain in Israel under the brand name Blockbuster. The results from the Israeli joint venture is included under 'discontinued operations'

The following amounts represent the Group's shares of the assets and liabilities, and sales and results of the joint ventures. They are included in the Consolidated Statement of Financial Position and Consolidated Income Statement:

	31 December 2011	31 December 2010
	EUR (thousands)	
Assets:		
- Non-current assets	**-**	-
- Current assets	**-**	-
	-	-
Liabilities:		
- Non-current liabilities	**1,582**	1,649
- Current liabilities	**1**	1
	1,583	1,650
Net liabilities	**(1,583)**	(1,650)

	Financial year 2011	Financial year 2010
	EUR (thousands)	
Income	**-**	-
Expenses	**-**	(12)
Profit after income tax	**-**	(12)

There are no contingent liabilities and no other commitments relating to the Group's interest in the joint ventures, and no contingent liabilities of the venture itself.

Note 38 - Subsequent events

Acquisition of non-controlling interest

Subsequent to the end of the financial year, in March 2012, the Company signed a Memorandum of Understanding with 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, to acquire the non-controlling interest in Norma Film Ltd. for an amount of EUR 1,755,000. As a result of the transaction, Norma Film Ltd. will be fully owned by the Company.

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 indirectly holds 100% of the equity share in Ya'af - Automatic Video Machines Ltd. and 60% of the equity share in Ya’af - Giant Video Library Network Ltd. However, these two subsidiaries are currently not active.

Following the expansion of the Israeli distribution operations and following the new distribution agreements signed in Israel, the Company considers film distribution in Israel an important integrated activity. Full ownership of the distribution business in Israel is in line with the ownership structure in the other countries in which the Company has significant film distribution operations.

As the acquisition of the non-controlling interest qualifies as a transaction with a related party – IMG 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 has formed a special committee of independent Supervisory Directors of the Company. This committee will , after careful review, vote on the transaction and where necessary represent the Company in the transaction, in order to ensure that transaction is at arm’s length and, moreover, to ensure that best provisions of the Dutch Governance Code in respect of conflicts of interest will be complied with.

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

	Note	31 December 2011	31 December 2010
		EUR (thousands)	
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	*3*	**8,905**	125
Property and equipment	*4*	**-**	9
Financial fixed assets			
Deferred tax asset		**1,201**	1,001
Investment in subsidiaries	*5*	**177,688**	166,066
Total non-current assets		**187,794**	167,201
CURRENT ASSETS			
Receivables			
Receivable from subsidiaries		**59,753**	51,442*
Trade account receivables		**500**	-
Receivable from related parties		**100**	13,072
Income taxes receivable		**100**	44
Other accounts receivable and prepaid items		**535**	524*
Marketable securities		**-**	109
Liquid funds			
Cash and cash equivalents		**410**	353
Total current assets		**61,398**	65,544
TOTAL ASSETS		**249,192**	232,745
SHAREHOLDERS’ EQUITY AND LIABILITIES			
SHAREHOLDERS’ EQUITY	*6*		
Share capital		**512**	512
Share premium reserve		**92,144**	92,144
Accumulated currency translation adjustments		**(11,272)**	2,474
Hedge reserve		**451**	73
Retained earnings		**126,543**	96,117
Net profit for the year		**20,925**	30,410
Total shareholders’ equity		**229,303**	221,730
CURRENT LIABILITIES			
Trade accounts payable		**177**	7
Payable to subsidiaries		**19,025**	10,458
Other accounts payable		**687**	550
Total current liabilities		**19,889**	11,015
TOTAL SHAREHOLDERS’ EQUITY AND LIABILITIES		**249,192**	232,745

*Reclassified for comparison purposes.

The notes on pages 106 to 110 are an integral part of the Company Financial Statements.

Company Income Statement

	Note	For the year ended 31 December 2011	2010
		EUR (thousands)	
Revenues		**5,881**	6,952
Cost of sales		**(5,688)**	-
Gross margin		**193**	6,952
General and administrative expenses		**(798)**	(1,428)
Acquisition-related and reorganisation expenses		**(381)**	-
Other expenses	9	**(1,117)**	
Net operating result		**(2,103)**	5,524
Financial income	*7*	**7**	189
Financial expenses	*8*	**(585)**	(261)
		(578)	(72)
Operating result before taxation		**(2,681)**	5,452
Income taxes benefit/(expenses)	*10*	**200**	(270)
Net result after taxation		**(2,481)**	5,182
Result from subsidiaries after taxation	*5*	**23,406**	25,228
Net income		**20,925**	30,410

The notes on pages 106 to 110 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 2010	508	90,377	(4,417)	1,274	71,628	24,426	183,796
Profit appropriation prior year	-	-	-	-	24,426	(24,426)	-
Issue of new share (see Note 6)	4	1,767	-	-	-	-	1,771
Share-based payments	-	-	-	-	63	-	63
Net profit for the year 2010	-	-	-	-	-	30,410	30,410
Foreign currency translation adjustment	-	-	6,891	-	-	-	6,891
Effective portion in fair value of cash flow hedges*	-	-	-	(1,201)	-	-	(1,201)
Balance as of 31 December 2010	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**

* 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 31 to the Consolidated Financial Statements).

The notes on pages 106 to 110 are an integral part of the Company Financial Statements.

Company Statement of Cash Flows

	For the year ended 31 December	
	2011	**2010**
	EUR (thousands)	
Cash flows from operating activities		
Net operating result	**(2,103)**	5,524
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortisation	**55**	67
Loss/(gain) on sale of subsidiaries	**27**	(3,089)
Interest received	**7**	189
Interest paid	**(585)**	(261)
Income taxes (paid)/received	**(56)**	4
Net cash (used in) provided by operating activities before working capital	**(2,655)**	2,434
Movement in receivables from and payables to subsidiaries	**16,505**	(3,882)
Increase in other receivable and related parties	**(511)**	(1,827)
Increase/(decrease) in other accounts payable	**307**	(15)
Equity share-based payments	**16**	63
Net cash used in operating activities	**13,662**	(3,227)
Cash flows from investing activities		
Investment in subsidiaries	**(2,603)**	(487)
Acquisition of subsidiaries and Goodwill	**(18,438)**	-
Net changes in marketable securities	**109**	-
Investment in loan deeded from a purchased subsidiary	**(2,936)**	-
Proceeds from sale of subsidiaries	**23**	2,234
Net cash provided by investing activities	**(23,845)**	1,747
Cash flows from financing activities		
Proceeds net, from new shares issued	**-**	**1,771**
Dividend received	**10,240**	-
Net cash provided by financing activities	**10,240**	1,771
Increase in cash and cash equivalents	**57**	291
Cash and cash equivalents at beginning of year	**353**	62
Cash and cash equivalents at end of year	**410**	353

The notes on pages 106 to 110 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 2011, 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 equity 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 are stated at cost less accumulated amortisation and impairment losses, if any.

	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 3 - Intangible assets (cont'd)

	Financial year 2010			
	Balance at beginning of year	Additions during the year	Acquisitions through business combinations	Balance at end of year
	EUR (thousands)			
Cost				
Goodwill	-	-	-	-
Other intangible assets	227	-	-	227
	227	-	-	227
Amortisation and impairment losses				
Goodwill	-	-	-	-
Other intangible assets	57	45	-	102
	57	45	-	102
Carrying value	170	(45)	-	125

Note 4 - Property and equipment

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)**	**-**

	Financial year 2010			
	Balance at beginning of year	Additions during the year	Accumulated depreciation	Balance at end of year
	EUR (thousands)			
Cinema equipment	13	-	(13)	-
Computers, furniture and office equipment	18	-	(9)	9
Carrying value	31	-	(22)	9

Note 5 - Investment in subsidiaries

The subsidiaries of the Company are valued at their net equity value.

The movements in subsidiaries are as follows:	Financial year	
	2011	2010
	EUR (thousands)	
Balance at beginning of the year	**166,066**	171,575
Currency translation adjustment	**(13,709)**	6,625
Investments in subsidiaries	**2,603**	487
Sales of subsidiaries	**(50)**	(5,951)
Dividend distribution by subsidiary	**(10,240)**	(31,898)
Net result subsidiaries during the year	**23,406**	25,228
Purchase new subsidiary	**9,612**	-
Balance at the end of the year	**177,688**	166,066

Note 6 - Shareholders' equity

As of 31 December 2011 and as of 31 December 2010, 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 2011 and 2010, reference is made to Note 16 of the Consolidated Financial Statements.

The Company's legal reserves comprise the effective portion in fair value of cash flow hedges and share in results of associates.

Note 7 - Financial income

The financial income comprises interest earned on bank accounts and deposits.

Note 8 - Financial expenses

The financial expenses mainly relate to interest payable to Group companies amounting to EUR 284,000 (2010: EUR 238,000) and to foreign currency exchange losses of EUR 301,000 (2010: EUR 23,000).

Note 9 – other expenses

This item contains credit royalties to subsidiary.

Note 10 - Income taxes

Income tax benefit recorded in 2011 is due to deferred tax in respect of current tax carry forward losses.
In 2010, the income tax expenses have been recorded primarily from the utilisation of available tax losses carried forward from prior years.
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 2010: EUR 1,001,000).
The accumulated tax losses carried forward as per 31 December 2011 are estimated to be EUR 6,191,000 (31 December 2010: EUR 4,760,000).

Note 11 - Personnel

The Company employed no employees during the years 2011 and 2010.

Note 12 - Directors' remuneration

The Board of Managing Directors of the Company consists of 3 members; the board members are entitled to a total remuneration of EUR 2,388,000 during the year 2011 (2010: EUR 3,338,000). The amount of remuneration also includes fees, salaries and bonuses paid and have been paid through the Company's subsidiaries.
The Supervisory Board of the Company consists of 6 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 Audit Committee is entitled to an additional EUR 5,000 per year and the chairman of the other committees is entitled to an additional EUR 2,500 per year. The total amount due in respect of Supervisory Board fees during 2011 is EUR 128,000 (2010: EUR 131,000).
For the remuneration elements received by the individual Board members, reference is made to Note 30 to the Consolidated Financial Statements.

Note 13 - 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	
	2011	**2010**
	EUR (thousands)	
Remuneration for audit KPMG Accountants N.V.	**225**	190
Remuneration for audit (other)[(1)]	**356**	268
Remuneration for other services[(2)]	**573**	330
	1,154	788

(1) Remuneration for audit includes the amounts paid and due to KPMG worldwide for professional services related to audit and review of unconsolidated and consolidated financial statements of the Company for the relevant year.

(2) Remuneration includes other services rendered by the auditor in 2011 and 2010.

Rotterdam, 15 March 2012

The Management Board

Moshe Greidinger	Amos Weltsch	Israel Greidinger

Supervisory Board

Scott 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.

Subsequent event

Reference is made to Note 38 (page 101).

Proposed profit appropriation

For the year ended 31 December 2011, management proposes to allocate the net profit for the year 2011 amounting to EUR 20,925,000 to retained earnings. This proposal has not been reflected in the Company Statement of Financial Position per 31 December 2011.

Auditor’s report

The auditor’s report is set out on pages 112 to 113.

Independent auditor's report

To the Supervisory Board and the Annual General Meeting of shareholders of Cinema City International N.V.

Report on the financial statements

We have audited the accompanying financial statements 2011 of Cinema City International N.V., Rotterdam. 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 2011, the consolidated income statement and the consolidated statements of comprehensive income, changes in shareholders' equity and 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 comprised the company statement of financial position as at 31 December 2011, the company income statement and the company statements of changes in shareholders' equity and 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 the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the director's report in accordance with Part 9 of Book 2 of the Netherlands 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 2011 and of 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 Netherlands 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 2011 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

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

Amstelveen, 15 March 2012

KPMG ACCOUNTANTS N.V.

Signed by

P. Mizrachy RA