# Cinema City International N.V.

**Interim Financial Report**
**for the six months ended**
**30 June 2011**

# CONTENTS

# DIRECTORS' REPORT

## General

### Introduction

Cinema City International N.V. (the "Company"), incorporated in the Netherlands, is a subsidiary of I.T. International Theatres Ltd. ("ITIT" or "parent company"). The Company (together with its subsidiaries, the "Group") is principally engaged in the operation of entertainment activities in various countries including: Poland, Hungary, Czech Republic, Romania, Bulgaria, Slovakia and Israel. The Company, through related entities, has been a family operated theatre business since 1929. The Company's shares are traded on the Warsaw Stock Exchange. As of 19 August 2011, the market share price was PLN 29.3 (EUR 7.05), giving the Company a market capitalisation of EUR 361.0 million. The Company's office is located in Rotterdam, the Netherlands.

## Highlights during the six months ended 30 June 2011

- **The Company turned in a steady financial performance for the six months ended 30 June 2011** generating revenues of EUR 128.2 million, Consolidated EBITDA (Earnings Before Interest, Taxation, Depreciation and Amortisation) of EUR 24.7 million (excluding acquisition-related and reorganisation expenses) and net income of EUR 9.9 million (excluding acquisition-related and reorganisation expenses). Including acquisition-related and reorganisation expenses, the EBITDA and net income for the six months ended 30 June 2011 amounted to EUR 22.1 million and EUR 7.3 million, respectively.

- **The number of tickets sold increased to 17.0 million compared to 15.1 million in the first six months of 2010 (+12.6%)** with the number of admissions on a same theatre basis decreasing by 11.9% from 15.1 million for the six months ended 30 June 2010, to 13.3 million for the six months ended 30 June 2011. This six months period decrease was attributed to the first quarter of 2011, compared to the first quarter of 2010 when *Avatar* and *Alice in Wonderland* dominated the screens.

- **In the second quarter alone, the number of tickets sold increased to 7.9 million compared to 5.8 million in the second quarter of 2010 (+36.2%)** with the number of admissions on a same theatre basis increasing by 5.2% from 5.8 million for the three months ended 30 June 2010 to 6.1 million for the three months ended 30 June 2011. This increase in ticket sales helped second quarter 2011 EBITDA from theatre operations increase by 24.7% compared to the second quarter of 2010.

- **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 the second quarter of 2011, the Company opened a 10-screen multiplex in Braila, Romania. In May 2011, the Company signed lease agreements and started operating three multiplexes operated to date by Palace Mozi in Hungary with a total of 17 screens. In Israel, during the six months ended 30 June 2011, 5 screens were closed in the on-going process of repositioning the chain in this market and 3 screens were closed in Hungary. During the period, the Company also signed two lease agreements for future multiplexes: one for a multiplex in Lublin, Poland and one in Sofia, Bulgaria.

# DIRECTORS' REPORT

- **The Company's total screen count as at 30 June 2011** is 882 in 93 multiplexes. The Company also operates 9 IMAX® theatres.
- **Acceleration of digitalisation program.** The Company has deployed to date more than 380 digital projectors, which now represent approximately 42% of all of the Company's projectors. In the first half of 2011, the Company signed agreements to purchase over 400 additional digital projectors, which would represent more than 75% of the Company's total screens by the end of the year.
- **Film distribution business performed positively with growing revenue and EBITDA.** The Company has also established Forum Film Slovakia, which started operations in May 2011.

## Theatre operations

*Theatre operations performance*

The total number of tickets sold for the six months ended 30 June 2011 increased by 12.6% to 17.0 million compared to the same six months in 2010 (and by 36.2% in the second quarter of 2011 compared to the second quarter of 2010) while same theatre admissions decreased by 11.9% in the six months ended 30 June 2011 compared to the same six months in 2010 (with same theatre admissions improving by 5.2% in the second quarter of 2011 compared to the second quarter of 2010). Theatre operations revenue reached EUR 116.9 million in the period versus EUR 106.3 million recorded in the first half of 2010, representing an 9.9% 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 this year, but also from the new cinemas opened during 2010 and during the first half of 2011.

While the theatre operations in the first quarter of 2011 compared to the record first quarter of 2010 reflected a post-Avatar effect - the top grossing film in history created a very challenging base to beat – the second quarter of 2011 produced a number of strong titles led by Pirates of the Caribbean – On Stranger Tides, Hangover Part II and Kung Fu Panda. Meanwhile, Polish domestic movie production had a strong six months compared to the first half of 2010 with such blockbusters as the comedy Och Karol! 2 (which itself generated 1.7 million admissions) and Sala Samobojcow. As a result, Poland, Cinema City's largest market, performed strongly during the six months ended 30 June 2011 compared to other countries of operation on a same theatre basis.

*Palace acquisition and following cinema additions*

In January 2011, the Company purchased the Palace Cinemas chain, comprising 141 screens in 15 multiplexes in Hungary, 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 "normalized" 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.

# DIRECTORS' REPORT

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

In May this year, 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 capitalize 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 2.6 million as part of its current expenses. Such costs incurred had a material impact on the Company's EBITDA and net income for the six months ended 30 June 2011. In order to show a clearer comparison of six monthly results without the disproportionate impact of these one-time expenses, the Overview of Results for the six months ended 30 June 2011 on page 5 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 the second quarter of 2011, the Company opened a 10-screen multiplex in Braila, Romania and closed 1 screen in Bat Yam, Israel (reducing a 4-screen multiplex to a 3-screen multiplex) and a 4-screen multiplex in Rishon Letzion, Israel. Three screens were closed in the Company's MOM Park multiplex in Budapest, Hungary as a result of an agreement between Palace Cinemas and the landlord signed before the Palace acquisition.

As mentioned above, in the beginning of May 2011, the Company signed 3 new lease agreements for its theatres in Hungary, notably Palace Cinemas Duna Plaza in Budapest (7 screens), Palace Cinemas Nyir Plaza in Nyiregyhaza (6 screens) and Palace Cinemas Kaposvar Plaza (4 screens), which have all been incorporated into the Company's operations. The Company has also signed two lease agreements for multiplexes in Lublin, Poland and in Sofia, Bulgaria with openings planned in the coming years.

*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 3-D movies. The record breaking success of Avatar, Alice in Wonderland and other 3-D movies at the end of 2009 and in 2010, appears to have validated the long-term value proposition associated with digital projection. The Company believes that digital technology will not only continue to generate premium priced higher attendance through 3-D films and alternative content (such as operas, ballet, sporting and other events drawing worldwide attention), but it will also help to reduce cinema labor costs as digital projectors require less ongoing manpower than traditional reel-to-reel projectors.

# DIRECTORS' REPORT

The Company continues installing state-of-the-art digital projectors in all its theatres. Currently, including projectors installed in the recently acquired multiplexes of Palace Cinemas, the Company has more than 380 digital projectors, and intends to accelerate this process by installing over 400 additional recently purchased projectors mostly before the end of 2011.

The Company has also installed special digital projectors in all of its IMAX® theatres. These projectors significantly decrease the print cost of each IMAX® film and will support the lineup of IMAX® titles expected to be released by the film studios going forward.

In the first quarter of 2011, the Company signed an agreement with Master Image, one of the leading international providers of 3-D digital movie solutions, to supply 3-D systems integrated with single-user glasses. Using the single-user glasses should allow the customer to own their 3-D glasses, and should also help the company to optimize the operation associated with showing 3-D 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 already begun to benefit from these virtual print fee agreements.

## Film distribution activities

Revenue generated in the first half of 2011 by the Company's distribution division increased by 13.6% to EUR 10.3 million from EUR 9.1 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 six months ended 30 June 2011. The increase in the Company's film distribution activities in Bulgaria and Romania also contributed to the increase of the film distribution activities. The increase was partly offset by a weaker supply of movies for which the Company had distribution rights in Poland and Hungary during the six months ended 30 June 2011 compared to the six months ended 30 June 2010.

In May the Company launched operations of Forum Film Slovakia, which became the 6th country, where Cinema City acts as a film distributor.

## Other activities including real estate operations

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 first six months of 2011 which compares to a gross profit amounting to EUR 3.1 million from the Bulgarian real estate sale during the six months ended 30 June 2010.

# DIRECTORS' REPORT

## Overview of results

The Company's net income attributable to equity holders of the parent company for the six months ended 30 June 2011 was EUR 7,281,000 and can be summarised as shown below. For comparison purposes, net results for the six months ended 30 June 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 six months ended 30 June | | |
|---|---|---|---|
| | 2011 *(excluding acquisition & reorganisation expenses)* | 2011 | 2010 |
| | EUR (thousands, except per share data) | | |
| **Continuing operations** | | | |
| Revenues from cinema-related operations | 128,192 | 128,192 | 116,394 |
| Costs from cinema-related operations | 97,101 | 97,101 | 81,644 |
| **Gross result from cinema-related operations** | 31,091 | 31,091 | 34,750 |
| Revenues from the sale of real estate | - | - | 91,212 |
| Cost of real estate sold | - | - | 88,125 |
| **Gross result from sale of real estate** | - | - | 3,087 |
| **Total gross result** | 31,091 | 31,091 | 37,837 |
| General and administrative expenses | 6,426 | 6,426 | 6,504 |
| Acquisition-related and reorganisation expenses | - | 2,582 | - |
| **EBITDA*** | 24,665 | 22,083 | 31,333 |
| Depreciation and amortisation | 12,189 | 12,189 | 9,611 |
| **Operating profit** | 12,476 | 9,894 | 21,722 |
| Financial income | 631 | 631 | 400 |
| Financial expenses | (1,751) | (1,751) | (2,355) |
| Loss on disposals and write-off of other investments | (48) | (48) | (20) |
| **Operating income before taxation** | 11,308 | 8,726 | 19,747 |
| Income taxes | (1,034) | (1,034) | (2,352) |
| **Net income from continuing operations** | 10,274 | 7,692 | 17,395 |
| Loss from discontinued operations | - | - | (69) |
| **Net income before Non-controlling interests** | 10,274 | 7,692 | 17,326 |
| Non-controlling interests | (411) | (411) | 207 |
| **Net income attributable to equity holders of the company** | 9,863 | 7,281 | 17,533 |
| Weighted average number of equivalent shares (basic) | 51,200,000 | 51,200,000 | 50,949,367 |
| Weighted average number of equivalent shares (diluted) | 51,244,510 | 51,244,510 | 51,000,326 |
| **Net earnings per ordinary share (basic and diluted)** | 0.19 | 0.14 | 0.34 |

* 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.

## DIRECTORS' REPORT

**Revenues**

Total revenues from cinema-related operations increased by 10.1% from EUR 116.4 million during the six months ended 30 June 2010 to EUR 128.2 million during the six months ended 30 June 2011.

Theatre operating revenues increased by 9.9% from EUR 106.3 million during the six months ended 30 June 2010 to EUR 116.9 million during the six months ended 30 June 2011. The increase in theatre operating revenues was mainly due to the contribution of the Palace Cinemas chain and new cinemas opened during 2010 in Bulgaria and Romania. This increase was partly offset by the fact that the first half of 2011 did not generate 3-D blockbusters comparable to *Avatar* and *Alice in Wonderland,* which dominated the screens during six months ended 30 June 2010.

Distribution operating revenues increased by 13.6% from EUR 9.1 million during the six months ended 30 June 2010 to EUR 10.3 million during the six months ended 30 June 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 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 Poland and Hungary during the six months ended 30 June 2011 in which the Company had distribution rights compared to a better supply of such movies during the six months ended 30 June 2010.

Other revenues remained at a similar level: EUR 1.0 million during the six months ended 30 June 2011 and the six months ended 30 June 2010.

During the six months ended 30 June 2011, there were no revenues from real estate-related activities, whereas during the six months ended 30 June 2010 total revenues from real estate activities amounted to EUR 91.2 million which were primarily 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 18.9% from EUR 81.6 million during the six months ended 30 June 2010 to EUR 97.1 million during the six months ended 30 June 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 which had full six months of operations during the six months ended 30 June 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 75.5% for the six months ended 30 June 2011, from 68.7% for the six months ended 30 June 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 82.9% for the six months ended 30 June 2011, from 91.4% for

## DIRECTORS' REPORT

the six months ended 30 June 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 88.1 million during the six months ended 30 June 2010 are primarily attributable to the cost of the Company's Bulgarian real estate assets sold to Israel Theatres, Ltd. in the first half of 2010.

**General and administrative expenses**

General and administrative expenses decreased by 1.2% from EUR 6.5 million for the six months ended 30 June 2010 to EUR 6.4 million during the six months ended 30 June 2011. The decrease in general and administrative expenses is mainly due to the decrease in the management bonus accrual resulting from the decrease in net income before taxation, partly offset by an increase in general and administrative expenses attributable to the increase in the Company's business activities.

**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 21.3%, from EUR 31.3 million for the six months ended 30 June 2010 to EUR 24.7 million for the six months ended 30 June 2011. EBITDA including acquisition-related and reorganisation expenses, decreased by 29.5% to EUR 22.1 million for the six months ended 30 June 2011.

**Depreciation and amortisation**

Depreciation and amortisation expenses increased by 26.8% from EUR 9.6 million for the six months ended 30 June 2010 to EUR 12.2 million for the six months ended 30 June 2011. The increase is explained mainly by higher depreciation expenses due to the newly opened theatres in 2010 primarily in Poland, Bulgaria and Romania, and due to the new cinemas acquired in the Palace Cinemas transaction.

**Operating profit**

As a result of the factors described above, excluding the acquisition-related and reorganisation expenses,the operating profit decreased by 42.6% from EUR 21.7 million during the six months ended 30 June 2010 to EUR 12.5 million during the six months ended 30 June 2011. The operating profit including acquisition-related and reorganisation expenses decreased by 54.5% to EUR 9.9 million for the six months ended 30 June 2011.

## DIRECTORS' REPORT

**Financial income/expenses**

The balance of financial income and expenses resulted in a net expense of EUR 1.1 million during the six months ended 30 June 2011 compared to a net expense of EUR 2.0 million during the six months ended 30 June 2010. The decrease is mainly due to exchange differences carried on balances denominated in currencies other than the functional currency and interest costs capitalised for the development of new cinemas.

**Non-controlling interests**

Non-controlling interests comprise the share of minority shareholders in losses from subsidiaries that are not 100% owned by the Company and amounted to EUR 0.4 million (negative) and EUR 0.2 million (positive) for the six months ended 30 June 2011 and for the six months ended 30 June 2010, respectively.

**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 43.7% from EUR 17.5 million during the six months ended 30 June 2010 to EUR 9.9 million during the six months ended 30 June 2011.The Company's net income attributable to equity holders of the parent company, including acquisition related and reorganisation expenses, decreased by 58.5% to EUR 7.3 million for the six months ended 30 June 2011.

# DIRECTORS' REPORT

## Selected financial data

| | EUR | | PLN | |
|---|---|---|---|---|
| | (thousands, except per share data) | | | |
| | For the six months ended 30 June | | | |
| | 2011 | 2010 | 2011 | 2010 |
| Revenues from cinema-related operations | **128,192** | 116,394 | **506,871** | 465,460 |
| Revenues from the sale of real estate | **-** | 91,212 | **-** | 364,757 |
| Operating profit excluding acquisition-related and reorganisation expenses | **12,476** | 21,722 | **49,330** | 86,866 |
| Operating profit including acquisition-related and reorganisation expenses | **9,894** | 21,722 | **39,121** | 86,866 |
| Operating income before taxation excluding acquisition-related and reorganisation expenses | **11,308** | 19,747 | **44,712** | 78,968 |
| Operating income before taxation including acquisition-related and reorganisation expenses | **8,726** | 19,747 | **34,503** | 78,968 |
| Net income attributable to equity holders of the parent company excluding acquisition-related and reorganisation expenses | **9,863** | 17,533 | **38,998** | 70,114 |
| Net income attributable to equity holders of the parent company including acquisition-related and reorganisation expenses | **7,281** | 17,533 | **28,789** | 70,114 |
| Cash flows from operating activities | **15,042** | 27,790 | **59,476** | 111,132 |
| Cash flows (used in)/from investment activities | **(34,419)** | 35,710 | **(136,093)** | 142,804 |
| Cash flows from/(used in) financing activities | **17,638** | (75,712) | **69,741** | (302,772) |
| Decrease in cash and cash equivalents | **(1,680)** | (11,829) | **(6,643)** | (47,304) |
| Total assets | **329,434** | 269,082 | **1,313,453** | 1,115,614 |
| Provisions | **8,102** | 6,554 | **32,303** | 27,173 |
| Long-term liabilities | **48,211** | 33,807 | **192,217** | 140,164 |
| Current liabilities | **57,016** | 36,326 | **227,323** | 150,608 |
| Shareholders' equity | **228,546** | 203,728 | **911,213** | 844,656 |
| Share capital | **512** | 512 | **2,041** | 2,123 |
| Average number of equivalent shares | **51,200,000** | 50,949,367 | **51,200,000** | 50,949,367 |
| Average number of equivalent shares (diluted) | **51,244,510** | 51,000,326 | **51,244,510** | 51,000,326 |
| Net earnings per ordinary share (basic and diluted) excluding acquisition-related and reorganisation expenses | **0.19** | 0.34 | **0.75** | 1.36 |
| Net earnings per ordinary share (basic and diluted) including acquisition-related and reorganisation expenses | **0.14** | [illegible] | **0.55** | 1.36 |

KPMG
KPMG Audit
Document to which our report dated
28 AUG 2011
also refers.
Initials for identification purposes
KPMG Accountants N.V.

## DIRECTORS' REPORT

### Selected financial data (cont'd)

*Selected financial data were translated from EUR into PLN in the following way:*

*(i) Balance sheet data were translated using the average exchange rate published by the National Bank of Poland for the last day of the year / period.*

*(ii) Income Statement and cash flows data were translated using the arithmetical average of average exchange rates published by the National Bank of Poland for the last day of every month within year / period.*

| | Exchange rate of euro versus the Polish zloty | | | |
|---|---|---|---|---|
| **PLN/EUR** | **Average exchange rate** | **Minimum exchange rate** | **Maximum exchange rate** | **Period end exchange rate** |
| **2011 (1st six months)** | **3.954** | **3.840** | **4.080** | **3.987** |
| **2010 (1st six months)** | 3.999 | 3.836 | 4.177 | 4.146 |

*Source: National Bank of Poland ("NBP")*

### Outlook for the remainder of 2011*

While the first half year of 2011 began, as predicted, on a less robust note than the first half year of 2010, the Company remains optimistic regarding the film pipeline for the second half of 2011. Management believes that the remainder of the year promises a good supply of movies that should support solid results in the Company's territories. In Hungary, the Czech Republic and Slovakia, the Company should also benefit from the inclusion of the Palace Cinemas screens, especially as they become fully integrated into the Company's operations during 2011.

The movie pipeline for the remainder of 2011 comprises many big sequel titles including *Cars 2, Twilight 4, Harry Potter*3-D, *Mission Impossible, Happy Feet 3-D, Final Destination 3-D* as well as a good number of new stories. In Poland, the first Polish mega production in 3-D, *Bitwa Warszawska 1920*, is scheduled for release in September (and, notably it will be distributed by Forum Film Poland, the Company's distribution subsidiary in Poland). It should also be noted that the number of big 3-D format movies will be released in the second half of the year, which is different from 2010, when the two biggest 3-D titles, *Avatar* and *Alice in Wonderland*, were on screen during the first quarter of the year.

Coming into the second half of 2011, the Company believes it has continued to lay solid groundwork for further future growth in both operating and financial performance, adding a total of 160 screens since the beginning of 2011.

For the remainder of 2011, the Company plans to open another 4 to 5 multiplexes, with a total of 40 to 50 screens, in Romania and Poland. The combination of acquisitions and organic growth will translate into a total growth in over 200 screens in 2011.The Company continues the construction of the 25 screen Planet megaplex in Rishon Letzion, Israel, which will contain the Company's first IMAX® in Israel. The project is expected to open towards the end of the first half of 2012.

Even with the Company's major focus in the first six months of 2011 on Hungary, the Czech Republic and Slovakia with the closing and integration of the Palace Cinemas acquisition, 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.

## DIRECTORS' REPORT

The Company currently has binding commitments for an additional 36 sites (representing approximately 360 screens) including 25 sites with approximately 240 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. However, the Company has seen that over the past several months the mall development market in Romania appears to have begun to improve, which has been reflected in the commencement in construction of a number of the shopping centres where the Company has binding lease agreements for new cinemas. Therefore, the Company currently anticipates a higher number of cinema openings in the year 2012, compared to the last two years. 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.

While the Company's management believes that current admissions will continue for the foreseeable future, there can be no assurance that the Company will not be materially adversely impacted if, among other potential negative trends, the current worldwide economic recovery remains weak or is not sustained. Continued softness in consumer spending, even in the light of a modest economic rebound, could result in an ongoing weakness in 'mall traffic', which has historically supported theatre admissions. In addition, if consumers continue to have considerably 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 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 half year 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 half year report does not contain any forecast about the Company's and its capital group's financial results.*

# DIRECTORS' REPORT

## Additional information to the report

***Major shareholders***

To the best of the Company's knowledge, as of the date of publication of this report, the following shareholders are entitled to exercise over 5% of voting rights at the General Meeting of Shareholders in the Company:

| | As of 28 August 2011 Number of shares/ % of shares | Increase/ (decrease) Number of shares | As of 30 June 2011 Number of shares/ % of shares | 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 S.A. | 2,998,479/ 5.86% | - | 2,998,479/ 5.86% | - | 2,998,479/ 5.86% |
| BZ WBK AIB TFI S.A. | 2,661,049/ 5.20% | - | 2,661,049/ 5.20% | - | 2,661,049/ 5.20% |

***Changes in ownership of shares and rights to shares by Management Board members in the six months ended 30 June 2011 until the date of publication of the report***

Changes in ownership of shares by the Management Board members are specified below:

| | As of 28 August 2011 Number of shares/ % of shares | Increase/ (decrease) Number of shares | As of 30 June 2011 Number of shares/% of shares | Increase/ (decrease) Number of shares | As of 31 December 2010 Number of shares/% of shares |
|---|---|---|---|---|---|
| **Moshe Greidinger*** | 10,480,011/ 20.47% | 71,472 | 10,408,539/ 20.33% | 822,409 | 9,586,130/ 18.72% |
| **Amos Weltsch** | None | - | None | - | None |
| **Israel Greidinger*** | 10,480,011/ 20.47% | 71,472 | 10,408,539/ 20.33% | 822,409 | 9, 586,130/ 18.72% |

* The shares held by Messrs Moshe and Israel Greidinger are held indirectly through I.T. International Theatres Ltd. On 4 January 2011, Israel Theatres Ltd. purchased part of its own shares from one of the shareholders. As a result, the number of shares indirectly held increased by 822,409 for each. Toward the end of August 2011, Israel Theatres Ltd. purchased part of its own shares from one of the shareholders. As a result, the number of shares indirectly held increased by 71,472 for each

***Rights 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 28 August 2011.

***Changes in ownership of shares and rights to shares by Supervisory Board members in the six months ended 30 June 2011 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 28 August 2011.

***Changes in the composition of the Supervisory Board and Management Board***

None

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KPMG Audit
Document to which our report dated
28 AUG 2011
also refers.
Initials for identification purposes
KPMG Accountants N.V.

# DIRECTORS' REPORT

## Additional information to the report (cont'd)

***Representation concerning financial statements and Directors' report***

The Management Board hereby declares that, to the best of their knowledge, the condensed consolidated interim financial statements as of 30 June 2011, which have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole, and that the Directors' report includes a fair review of the information required pursuant to section 5:25d subsections 8 and 9 of the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*).

***Other***

As of 30 June 2011, the Group has issued guarantees for loans that in total amount to EUR 12.0 million and PLN 255.5 (EUR 63.8) million in connection with loans provided to subsidiaries.

As of 30 June 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 six months ended 30 June 2011:

- an increase in the provision for deferred tax liabilities of EUR 1,091,000 (an increase of EUR 7,000 during the 3 months ended 30 June 2011);
- a decrease in the provision for accrued employee retirement rights of EUR 128,000 (a decrease of EUR 4,000 during the 3 months ended 30 June 2011).

**The Management Board**

| | | |
|---|---|---|
| Moshe J. (Mooky) Greidinger<br>President of the board<br>General Director | Amos Weltsch<br>Management board<br>Operational Director | Israel Greidinger<br>Management board<br>Financial Director |

**Rotterdam, 28 August 2011**

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Document to which our report dated
28 AUG 2011
also refers.
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KPMG Accountants N.V.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | 30 June 2011 (Unaudited) | 31 December 2010 (Audited) | 30 June 2010 (Unaudited) |
|---|---|---|---|---|
| | | | EUR (thousands) | |
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| **Intangible assets** | | 10,915 | 801 | 997 |
| **Property and equipment** | 14 | 256,967 | 231,761 | 208,390 |
| **Deferred tax asset** | | 3,839 | 2,030 | 1,939 |
| **Foreign currency exchange contracts** | 9 | - | - | 30 |
| **Total non-current assets** | | 271,721 | 234,592 | 211,356 |
| **CURRENT ASSETS** | | | | |
| **Inventories** | | 5,461 | 4,660 | 4,407 |
| **Receivables** | | | | |
| Trade accounts receivable | | 13,019 | 13,387 | 11,782 |
| Receivable from related parties | | 15,749 | 15,622 | 15,222 |
| Income taxes receivable | | 378 | 1,061 | 436 |
| Other accounts receivable and prepaid expenses | | 13,833 | 11,546 | 13,282 |
| ***Total receivables*** | | 42,979 | 41,616 | 40,722 |
| **Financial assets** | | | | |
| Foreign currency exchange contracts | 9 | 45 | 90 | 1,519 |
| Marketable securities | | 46 | 190 | 164 |
| ***Total financial assets*** | | 91 | 280 | 1,683 |
| **Liquid funds** | | | | |
| Cash and cash equivalents | | 8,847 | 10,527 | 10,588 |
| Short-term bank deposits - collateralised | | 335 | 329 | 326 |
| ***Total liquid funds*** | | 9,182 | 10,856 | 10,914 |
| **Total current assets** | | 57,713 | 57,412 | 57,726 |
| TOTAL ASSETS | | 329,434 | 292,004 | 269,082 |

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Document to which our report dated
28 AUG 2011
also refers.
Initials for identification purposes
KPMG Accountants N.V.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | 30 June 2011 (Unaudited) | 31 December 2010 (Audited) | 30 June 2010 (Unaudited) |
|---|---|---|---|---|
| | | EUR (thousands) | | |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | | |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | 10 | 512 | 512 | 512 |
| Share premium reserve | | 92,144 | 92,144 | 92,144 |
| Accumulated currency translation adjustment | | 2,117 | 2,474 | (3,801) |
| Hedge reserve | | (43) | 73 | 1,255 |
| Retained earnings | | 133,816 | 126,527 | 113,618 |
| **Total equity attributable to equity holders of the Company** | | 228,546 | 221,730 | 203,728 |
| **Non-controlling interest** | | (4,339) | (4,957) | (4,779) |
| **Total equity** | | 224,207 | 216,773 | 198,949 |
| **LONG-TERM LIABILITIES** | | | | |
| Long-term loans, net of current portion | 15 | 35,642 | 19,066 | 22,472 |
| Accrued employee retirement rights, net | | 606 | 734 | 651 |
| Deferred tax liabilities | | 7,496 | 6,405 | 5,903 |
| Financial lease | | 1,070 | 1,215 | 1,550 |
| Other long-term liabilities | | 3,397 | 3,302 | 3,231 |
| **Total long-term liabilities** | | 48,211 | 30,722 | 33,807 |
| **CURRENT LIABILITIES** | | | | |
| Short-term borrowings | 15 | 20,031 | 12,111 | 8,634 |
| Trade accounts payable | | 13,809 | 9,702 | 9,779 |
| Payable to related parties | | 176 | 524 | 162 |
| Employee and payroll accruals | | 2,715 | 2,036 | 2,033 |
| Other accounts payable | | 20,183 | 20,136 | 15,718 |
| Foreign currency exchange contracts | 9 | 102 | - | - |
| **Total current liabilities** | | 57,016 | 44,509 | 36,326 |
| **Total liabilities** | | 105,227 | 75,231 | 70,133 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | 329,434 | 292,004 | 269,082 |

# CONSOLIDATED INCOME STATEMENT

| | For the 6 months ended 30 June 2011 (Unaudited) | For the 3 months ended 30 June 2011 (Unaudited) | For the 6 months ended 30 June 2010 (Unaudited) | For the 3 months ended 30 June 2010 (Unaudited) |
|---|---|---|---|---|
| | EUR (thousands) | | | |
| **Continuing operations** | | | | |
| Revenues from cinema- related operations | 128,192 | 62,404 | 116,394 | 46,317 |
| Operating costs from cinema-related operations | 109,290 | 54,377 | 91,255 | 40,126 |
| **Gross margin from cinema-related operations** | 18,902 | 8,027 | 25,139 | 6,191 |
| Revenues from the sale of real estate | - | - | 91,212 | 91,212 |
| Operating costs of real estate sold | - | - | 88,125 | 88,125 |
| **Gross margin from sale of real estate** | - | - | 3,087 | 3,087 |
| Total revenues | 128,192 | 62,404 | 207,606 | 137,529 |
| Total operating costs | 109,290 | 54,377 | 179,380 | 128,251 |
| **Total gross margin** | 18,902 | 8,027 | 28,226 | 9,278 |
| General and administrative expenses | 6,426 | 2,837 | 6,504 | 2,911 |
| Acquisition-related and reorganisation expenses | 2,582 | 217 | - | - |
| **Operating profit** | 9,894 | 4,973 | 21,722 | 6,367 |
| Financial income | 631 | 261 | 400 | 240 |
| Financial expenses | (1,751) | (865) | (2,355) | (1,446) |
| Loss on disposals & write-off of other investments | (48) | (42) | (20) | (26) |
| **Operating income before taxation** | 8,726 | 4,327 | 19,747 | 5,135 |
| Income tax expense | (1,034) | (369) | (2,352) | (252) |
| **Net income from continuing operations** | 7,692 | 3,958 | 17,395 | 4,883 |
| **Discontinued operations** | | | | |
| Loss from discontinued operations | - | - | (69) | (81) |
| **Net income for the period** | 7,692 | 3,958 | 17,326 | 4,802 |
| **Attributable to:** | | | | |
| Equity holders of the Company | 7,281 | 3,647 | 17,533 | 4,827 |
| Non-controlling interest related to continued operations | 411 | 311 | (204) | (22) |
| Non-controlling interest related to discontinued operations | - | - | (3) | (3) |
| **Net income for the period** | 7,692 | 3,958 | 17,326 | 4,802 |

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28 AUG 2011
also refers.
Initials for identification purposes
KPMG Accountants N.V.

# CONSOLIDATED INCOME STATEMENT

| | For the 6 months ended 30 June 2011 (Unaudited) | For the 3 months ended 30 June 2011 (Unaudited) | For the 6 months ended 30 June 2010 (Unaudited*) | For the 3 months ended 30 June 2010 (Unaudited) |
|---|---|---|---|---|
| | EUR (thousands, except per share data and number of shares) | | | |
| **Net income attributable to equity holders of the Company** | **7,281** | **3,647** | 17,533 | 4,827 |
| **Earnings per share** | | | | |
| Weighted average number of equivalent shares | **51,200,000** | **51,200,000** | 50,949,367 | 51,052,233 |
| Weighted average number of equivalent shares (diluted) | **51,244,510** | **51,240,837** | 51,000,326 | 51,103,193 |
| **Net earnings per share for profit attributable to the owners of the Company (basic and diluted)** | **0.14** | **0.07** | 0.34 | 0.09 |
| **Net earnings per share for profit from continuing operations attributable to the owners of the Company (basic and diluted)** | **0.14** | **0.07** | 0.34 | 0.09 |

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28 AUG 2011
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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | For the 6 months ended 30 June 2011 (Unaudited) | For the 3 months ended 30 June 2011 (Unaudited) | For the 6 months ended 30 June 2010 (Unaudited) | For the 3 months ended 30 June 2010 (Unaudited) |
|---|---|---|---|---|
| | EUR (thousands) | | | |
| **Net income for the period** | 7,692 | 3,958 | 17,326 | 4,802 |
| **Other comprehensive income** | | | | |
| Foreign exchange translation differences | (150) | 24 | 31 | (8,219) |
| Effective portion in fair value of cash flow hedges, net of tax [1] | (116) | (68) | (19) | 271 |
| **Other comprehensive income, net of tax** | (266) | (44) | 12 | (7,948) |
| **Total comprehensive income for the period** | 7,426 | 3,914 | 17,338 | (3,146) |
| **Attributable to:** | | | | |
| Equity holders of the Company | 6,808 | 3,608 | 18,130 | (2,904) |
| Non-controlling interest | 618 | 306 | (792) | (242) |
| **Total comprehensive income for the period** | 7,426 | 3,914 | 17,338 | (3,146) |

[1] 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.

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2 8 AUG 2011
also refers.
Initials for identification purposes
KPMG Accountants N.V.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Accumulated currency translation adjustment | Hedge reserve | Retained earnings | Total | Non controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | EUR (thousands) - Unaudited | | | | | | | |
| **Balance as of 1 January 2011** | 512 | 92,144 | 2,474 | 73 | 126,527 | 221,730 | (4,957) | 216,773 |
| Share based payments under the stock option plan | - | - | - | - | 8 | 8 | - | 8 |
| Net income for the period | - | - | - | - | 7,281 | 7,281 | 411 | 7,692 |
| Foreign currency translation adjustment | - | - | (357) | - | - | (357) | 207 | (150) |
| Effective portion in fair value of cash flow hedges | - | - | - | (116) | - | (116) | - | (116) |
| **Balance as of 30 June 2011** | 512 | 92,144 | 2,117 | (43) | 133,816 | 228,546 | (4,339) | 224,207 |

| | Share capital | Share premium | Accumulated currency translation adjustment | Hedge reserve | Retained earnings | Total | Non controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | EUR (thousands) - Unaudited | | | | | | | |
| **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 | 4 | 1,767 | - | - | - | 1,771 | - | 1,771 |
| Share based payments under the stock option plan | - | - | - | - | 31 | 31 | - | 31 |
| Net income for the period | - | - | - | - | 17,533 | 17,533 | (207) | 17,326 |
| Foreign currency translation adjustment | - | - | 616 | - | - | 616 | (585) | 31 |
| Effective portion in fair value of cash flow hedges | - | - | - | (19) | - | (19) | - | (19) |
| **Balance as of 30 June 2010** | 512 | 92,144 | (3,801) | 1,255 | 113,618 | 203,728 | (4,779) | 198,949 |

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KPMG Audit
Document to which our report dated
2 8 AUG 2011
also refers.
Initials for identification purposes
KPMG Accountants N.V.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | For the six months ended 30 June | |
|---|---|---|
| | 2011 | 2010 |
| | (Unaudited) | (Unaudited) |
| | EUR (thousands) | |
| **Cash flows from operating activities** | | |
| Operating profit | **9,894** | 21,722 |
| Discontinued operation adjustment to operating profit | - | 85 |
| *Adjustments to reconcile net income to net cash provided by operating activities:* | | |
| Depreciation and amortisation | **12,189** | 9,674 |
| Decrease in provision related to onerous lease contracts | - | (349) |
| Decrease in accrued employee rights upon retirement, net | **(95)** | (20) |
| Interest received | **631** | 1,076 |
| Interest paid | **(1,751)** | (3,084) |
| Income taxes paid | **(5)** | (1,909) |
| ***Operating income before working capital*** | **20,863** | 27,195 |
| (Increase)/decrease in inventories | **(532)** | 774 |
| Decrease in trade accounts receivable | **1,550** | 4,386 |
| Increase in prepaid expenses and other receivables | **(83)** | (442) |
| (Increase)/decrease in governmental institutions | **(597)** | 555 |
| Decrease in long-term film distribution costs and deferred expenses | **516** | 335 |
| Decrease in accounts payable | **(6,484)** | (5,000) |
| Increase in employee and payroll accruals | **300** | 59 |
| Net changes in related parties | **(499)** | (103) |
| Equity share-based payments | **8** | 31 |
| **Net cash from operating activities** | **15,042** | 27,790 |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment and other assets* | **(15,894)** | (17,598) |
| Investments in intangible fixed assets** | **(459)** | (89) |
| Investments in investment properties** | - | (4,511) |
| Investment in assets classified as held for sale | - | (4,507) |
| Sale of subsidiaries, net of cash disposed of | - | 70,949 |
| Proceeds from disposition of property and equipment and intangible assets | **226** | 62 |
| Short-term bank deposits - collateralised | **(7)** | (116) |
| Changes in payables to tax authorities related to investment activity | - | (8,493) |
| Changes in marketable securities | **141** | 13 |
| Acquisition of subsidiaries, net of cash acquired | **(18,426)** | - |
| **Net cash (used in)/from investing activities** | **(34,419)** | 35,710 |

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

KPMG Audit
Document to which our report dated
28 AUG 2011
also refers.
Initials for identification purposes
KPMG Accountants N.V.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | For the six months ended 30 June | |
|---|---|---|
| | 2011 | 2010 |
| | (Unaudited) | (Unaudited) |
| | EUR (thousands) | |
| **Cash flows from financing activities** | | |
| Proceeds from long-term loans | **35,395** | 10,096 |
| Repayment of long-term loans | **(20,087)** | (88,083) |
| (Decrease)/increase in long-term payables | **(560)** | 341 |
| Short-term bank credit, net increase | **2,890** | 163 |
| Proceeds net, from new shares issued | **-** | 1,771 |
| **Net cash from/(used in) financing activities** | **17,638** | (75,712) |
| Foreign currency exchange differences on cash and cash equivalents | **59** | 383 |
| Decrease in cash and cash equivalents | **(1,680)** | (11,829) |
| Cash and cash equivalents at beginning of year | **10,527** | 22,417 |
| **Cash and cash equivalents at end of period** | **8,847** | 10,588 |

## Note 1 – General and principal activities

Cinema City International N.V.("the Company") is incorporated and domiciled in the Netherlands. The shares in the Company are traded on the Warsaw Stock Exchange. As at 30 June 2011, 53.89% of the outstanding shares in the Company are held by I.T. International Theatres Ltd. ("ITIT"), incorporated in Israel. The Company, its subsidiaries and joint ventures are principally engaged in the operation of entertainment activities in various countries including: Poland, Hungary, 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. In addition, the Company is involved in short-term and long-term real estate trading in Central Europe. The Company's business is in large dependent both upon the availability of suitable motion pictures from third parties for exhibition in its theatres, and the performance of such films in the Company's markets.

The Condensed Consolidated Interim Financial Statements of the Company for the six months ended 30 June 2011 comprise the Company and its subsidiaries and joint ventures (together referred to as "the Group") and the Group's interest in associates.

A list of the companies from which the financial data are included in these Interim Condensed Consolidated Financial Statements and the extent of ownership and control are presented in the Company's Consolidated Financial Statements for the year ended 31 December 2010. Entities newly included in consolidation during the six months ended 30 June 2011 are disclosed in Note 5.

The consolidated financial statements of the Group for the year ended 31 December 2010 are available upon request from the Company's registered office at Weena 210-212, 3012 NJ Rotterdam, the Netherlands or at the Company's website: www.cinemacity.nl/en.

## Note 2 – Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited 2010 Annual Accounts which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The 30 June 2011 Condensed Consolidated Interim Financial Statements were authorised for issue by the Management Board on 28 August 2011.

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KPMG Audit
Document to which our report dated

28 AUG 2011

also refers.
Initials for identification purposes
KPMG Accountants N.V.

## Note 3 – Accounting policies

The accounting policies applied by the Company in these Condensed Consolidated Interim Financial Statements are the same as those applied by the Company in its consolidated financial statements for the year ended 31 December 2010, except for the adoption of the following new or amended Standards and Interpretations applicable to annual reporting periods beginning on or after 1 January 2011 as noted below:

- Amendments to IAS 32 Financial instruments: presentation: Classification of Rights Issues – effective for financial years beginning on or after 1 February 2010,
- IAS 24 Related Party Disclosures (revised in November 2009) – effective for financial years beginning on or after 1 January 2011,
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirements – effective for financial years beginning on or after 1 January 2011,
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – effective for financial years beginning on or after 1 July 2010,
- Improvements to IFRSs (issued in May 2010) – some improvements are effective for annual periods beginning on or after 1 July 2010, the rest is effective for annual periods beginning on or after 1 January 2011.

Adoption of the above new standards and amendments to standards did not have an impact on the financial position or performance of the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

## Note 4 – The 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. In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by the Management Board in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2010 except as described below.

**Change in estimate**

During the six months ended 30 June 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 six months ended 30 June 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 5 – Changes in Consolidated Entities

**Changes in consolidated and associated entities during the first six months of 2011:**

*Entity newly in consolidation:*

- Palace Cinemas Czech s.r.o., 100% owned by the Company, incorporated in the Czech Republic
- 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
- 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.).

All of the companies above were acquired as part of the Palace Cinemas acquisition in January 2011 (see Note 8).

- 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.

## Note 6 – Functional and reporting currency and exchange rates

### A. Functional and reporting 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 Romanian new lei and the Polish zloty. The functional currency of the operations in Israelis the New Israeli shekel (NIS). The financial statements of the above mentioned foreign operations are translated from the respective functional currency into euro (presentation currency of the Company) for both 2010 and 2011 as follows:
Assets and liabilities, both monetary and non-monetary are translated at the closing exchange rate. Income statement items were translated at the exchange rates at the dates of the transactions. Foreign exchange differences arising on translation have been recognised directly in equity.

## Note 6 – Functional and reporting currency and exchange rates (cont'd)

### B. Exchange rates

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

| | 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)** |
| **30 June2011** | **24.37** | **267.38** | **4.00** | **1.44** | **4.94** | **4.20** |
| 31 December 2010 | 25.29 | 280.03 | 3.97 | 1.33 | 4.74 | 4.30 |
| 30 June 2010 | 25.79 | 287.16 | 4.16 | 1.22 | 4.76 | 4.39 |
| **Change during the period** | **%** | **%** | **%** | **%** | **%** | **%** |
| **2011 (6 months)** | **(3.64)** | **(4.52)** | **0.76** | **8.27** | **4.22** | **(2.33)** |
| 2010 (12 months) | (4.28) | 2.71 | (4.11) | (6.99) | (12.87) | 1.18 |
| 2010 (6 months) | (2.38) | 5.32 | 0.57 | (14.83) | (12.57) | 3.38 |

| | 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 (6 months)** | **24.35** | **269.51** | **3.95** | **1.40** | **4.94** | **4.18** |
| 2010 (12 months) | 25.32 | 275.94 | 4.00 | 1.33 | 4.95 | 4.22 |
| 2010 (6 months) | 25.76 | 272.12 | 4.01 | 1.33 | 4.99 | 4.16 |
| **Change during the period** | **%** | **%** | **%** | **%** | **%** | **%** |
| **2011(6 months)** | **(3,83)** | **(2.33)** | **(1.25)** | **5.26** | **(0.20)** | **(0.95)** |
| 2010 (12 months) | (4.38) | (1.85) | (7.83) | (4.32) | (9.51) | (0.71) |
| 2010 (6 months) | (2.70) | (3.21) | (7.56) | (4.60) | (8.72) | (2.11) |

| | Exchange rate of euro | | | | | |
|---|---|---|---|---|---|---|
| **Average for the quarter ended 30 June** | **Czech crown (CZK)** | **Hungarian forint (HUF)** | **Polish zloty (PLN)** | **US dollar (USD)** | **Israeli shekel (NIS)** | **Romania new lei (RON)** |
| **2011** | **24.32** | **266.36** | **3.96** | **1.44** | **4.95** | **4.13** |
| 2010 | 25.60 | 274.86 | 4.02 | 1.28 | 4.81 | 4.19 |
| **Change quarter over quarter** | **%** | **%** | **%** | **%** | **%** | **%** |
| **2011** | **(5.00)** | **(3.09)** | **(1.49)** | **12.50** | **2.91** | **(1.43)** |
| 2010 | (4.19) | (4.24) | (9.87) | (5.88) | (13.18) | (0.48) |

Since the exchange rate of 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.

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28 AUG 2011
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## Note 7 – Commitments and contingent liabilities

The Company and its subsidiaries did not enter into any new agreements or contracts that resulted in additional significant commitments or contingent liabilities since 31 December 2010 except for the matter described below, the commitments, contingent liabilities and liens as disclosed in the Company's Annual Accounts for the year ended 31 December 2010 have not materially changed as at 30 June 2011, except for further commitments to open new cinemas as part of the Company's expansion plans and except for new commitments and securities as disclosed below.

As part of the Palace Cinemas acquisition in January 2011 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.

During the six months ended 30 June 2011, the company signed agreements to purchase over 400 digital projectors. As of 30 June 2011, the remaining commitment according to the mentioned agreements is to purchase additional 336 digital projectors. The total amount of the commitment is approximately Euro 10 million.

During the six months ended 30 June 2011, the Company provided a guarantee for new loans to a Polish bank totalling PLN 67 million (EUR 17.0 million). As of 30 June 2011, the Group has guarantees for loans that in total amount to EUR 12 million and PLN 255.5 million (EUR 63.8 million) in connection with loans provided to subsidiaries.

## Note 8 – Acquisitions

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 is 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.

At the closing, the Company paid EUR 21,374 thousand to the seller and assumed EUR 6,546 thousand 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 thousand.

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.

## Note 8 – Acquisitions (cont'd)

As disclosed in the Company's Condensed Consolidated Financial Report for the three months ended 31 March 2011, an amount of approximately EUR 7.8 million was initially recognised as goodwill in connection with the acquisition. However, during the second quarter of 2011, upon completion of the valuation of the new business combination, the amount recognised as goodwill was adjusted to EUR 8.8 Million. The goodwill is mainly made up of future economic benefits including post-acquisition synergies and of future potential growth.

The Palace Cinemas were acquired effectively as of 1 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 17.4 million.

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) – (Unaudited) |
|---|---|
| **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 | 8,826 |
| **Total consideration** | **21,374** |
| Less: cash and cash equivalents in subsidiaries acquired | 2,948 |
| **Total net cash consideration** | **18,426** |

The Company incurred acquisition-related costs of EUR 2,582 thousand 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 expense.

## Note 9 – Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's business. These risks are described in full detail in the 2010 Annual Accounts. As at 30 June 2011, the Company has hedged some of its USD expenses through June 2011 in respect of its Polish, Hungarian and Czech theatre operations, against the Polish zloty, the Hungarian forint and Czech crown, respectively. In connection with these obligations, the Company has entered into the following forward foreign exchange contracts:

(1) 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;
(2) 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;
(3) contracts comprising a commitment to buy USD 90,000 at the beginning of each month until August 2011 at fixed prices denominated in Czech crown.

Forward foreign exchange contracts have been valued in the Condensed Consolidated Statement of Financial Position at 30 June 2011 at their fair value. The valuation of contracts 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 USD against local currency as described above. Amounts are released from the Hedge reserve to profit or loss when the future transaction is settled.

## Note 10 – 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 first half of the financial year 2011.
All shares issued and outstanding at 30 June 2011 have been fully paid.

## Note 11 – Related-party transactions

There were no material transactions and balances with related parties during the six months ended 30 June 2011 other than were already disclosed in 2010 annual accounts.

## Note 12–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 six months ended 30 June 2010 comprises the results from film distribution activities in Hungary and the Czech Republic which were discontinued in 2010.

## Note 13 - Segment Reporting

The Group's operations in Israel and Central Europe are organised under the reportable segments, as described 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, the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Theatre operations.
- Distribution – Distribution of movies.
- DVD distribution (discontinued – see Note 12).
- Other – this includes the Company's cinema-related real estate activities and the sale of real estate.

| | For the six months ended 30 June 2011 EUR (thousands) – (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Theatre operations | Distribution | Other | Eliminations | Consolidated |
| **Revenues** | | | | | |
| External sales | 116,883 | 10,305 | 1,004 | - | 128,192 |
| Inter-segment sales | 9 | 6,555 | - | (6,564) | - |
| Total revenues | 116,892 | 16,860 | 1,004 | (6,564) | 128,192 |
| Segment results | 8,617 | 870 | 407 | - | 9,894 |
| Net financial expense | | | | | (1,120) |
| Net loss on disposals | | | | | (48) |
| Income taxes | | | | | (1,034) |
| Non-controlling interests | | | | | (411) |
| Net income | | | | | 7,281 |

| | 30 June 2011 EUR (thousands) – (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Theatre operations | Distribution | Other | Unallocated | Consolidated |
| **Segment assets** | 299,403 | 10,183 | 16,009 | 3,839 | 329,434 |
| **Segment liabilities** | 33,136 | 6,101 | 2,821 | 63,169 | 105,227 |
| **Capital expenditure** | 17,783 | 468 | - | - | 18,251 |

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28 AUG 2011
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## Note 13 - Segment Reporting (cont'd)

| | For the six months ended 30 June 2010 EUR (thousands) – (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Theatre operations | Distribution | DVD distribution (discontinued) | Other | Eliminations | Consolidated | Less: Discontinued operations | Continuing Operations |
| **Revenues** | | | | | | | | |
| External sales | 106,328 | 9,069 | 2,341 | 92,209 | - | 209,947 | 2,341 | 207,606 |
| Inter-segment sales* | 46 | 6,612 | 14 | - | (6,672) | - | - | - |
| Total revenues | 106,374 | 15,681 | 2,355 | 92,209 | (6,672) | 209,947 | 2,341 | 207,606 |
| Segment results | 18,590 | 28 | 85 | 3,104 | - | 21,807 | 85 | 21,722 |
| Net financial expense | | | | | | (2,008) | (53) | (1,955) |
| Net loss on disposals | | | | | | (17) | 3 | (20) |
| Income taxes | | | | | | (2,456) | (104) | (2,352) |
| Non-controlling interests | | | | | | 207 | 3 | 204 |
| Net income | | | | | | 17,533 | (66) | 17,599 |

| | 30 June 2010 EUR (thousands) – (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Theatre operations | Distribution | DVD distribution (discontinued) | Other | Unallocated | Consolidated |
| **Segment assets*** | 236,295 | 11,345 | 1,543 | 17,960 | 1,939 | 269,082 |
| **Segment liabilities** | 24,161 | 5,755 | 3,083 | 125 | 37,009 | 70,133 |
| **Capital expenditure** | 14,028 | 69 | - | 4,511 | - | 18,608 |

* Reclassified for comparison purpose.

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28 AUG 2011
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KPMG Accountants N.V.

## Note 14 – Property and equipment

During the six months ended 30 June 2011, the Company acquired assets with a cost of EUR 17,792 thousand (six months ended 30 June 2010: EUR 14,015 thousand). Such acquisition comprised mainly cinema equipment and leasehold improvements. Assets with a carrying amount of EUR 244 thousand were disposed of during the six months ended 30 June 2011 (six months ended 30 June 2010: EUR 69 thousand), resulting in a loss on disposal of EUR 18 thousand (six months ended 30 June 2010: a loss of EUR 7 thousand).

## Note 15 – Loans and borrowings

The following loans and borrowings (non-current and current) were issued and repaid during the six months ended 30 June 2011:

| | | | EUR (thousands) – (Unaudited) |
|---|---|---|---|
| | **Currency** | **Interest rate** | **Carrying amount** |
| **Balance as at 1 January 2011** | | | 31,177 |
| **New issues:** | | | |
| Short-term bank credit | PLN | Wibor (1 month) +1.5% | 4,385 |
| Secured bank loan | EUR | Libor (1 day) +1.7%- Libor (3 month) +2.0% | 7,561 |
| Secured bank loan | PLN | Wibor (3 month) +2.75% | 27,834 |
| Secured bank loan* | EUR | Euribor (1 month) +3.75% | 6,546 |
| **Repayments:** | | | |
| Secured bank loan | EUR | | (8,809) |
| Secured bank loan | HUF | | (219) |
| Secured bank loan | PLN | | (10,745) |
| Short-term bank credit | NIS | | (1,478) |
| Secured bank loan | CZK | | (314) |
| Short-term bank credit | EUR | | (17) |
| **Translation and currency differences** | | | (248) |
| **Balance as at 30 June 2011** | | | 55,673 |
| *Split as follows:* | | | |
| Long-term loans | | | 35,642 |
| Short-term borrowings | | | 20,031 |
| **Balance as at 30 June 2011** | | | 55,673 |

*Due to the acquisition of Palace Cinemas (see Note 8)

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28 AUG 2011
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Initials for identification purposes
KPMG Accountants N.V.

## Note 16 – Income tax expense

Income tax expense is recognised based on Management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 December 2011 is 11.8% (the estimated tax rate for the six months ended 30 June 2010 was 12.4%).

## Note 17 – Impairment losses and provisions

During the six months ended 30 June 2011, no impairment losses were charged.

## Note 18 – Seasonality

The Group's activities are not of a material seasonal nature. Therefore, the results presented by the Group do not fluctuate significantly during the year due to the seasonality.

Historically, the Company's revenues have tended to have a relatively small "seasonality" impact driven in large part by the way major film distributors release movies. In the past, the film studios released the most marketable movies during the summer months and the late-November through December holiday season, corresponding with what the studios believed to be the periods of highest customer interest. In recent years, however, this seasonality impact has become less pronounced as films are now more evenly distributed during the year. In addition, attendance may be temporarily impacted by the weather, whereby cinema attendance tends to increase during those periods when the weather is less conducive to outside activities, though such impact is typically relatively short-lived and cannot be predicted.

## Note 19 – Share-based payments

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. For details of the Plan, reference is made to the Consolidated Financial Statements of the Group for the year ended 31 December 2010. No new options were granted to employees during for the six months ended 30 June 2011.
The weighted average exercise price of options outstanding (vested but not yet exercised) is approximately EUR 6.25. The number of exercisable options at 30 June 2011 is 104,333.
The impact of the share-based payments on the financial statements of the Company for the six months ended 30 June 2011 was an expense of EUR 8,000 (six months ended 30 June 2010: EUR 31,000) recognised in the income statement with a corresponding increase in equity. During the six months ended 30 June 2011 the options were neither forfeited nor lapsed (during the year 2010 the term of 43,000 options has been lapsed).

## Note 20 – Subsequent events

*None*

## Review report

To the Management Board of Cinema City International N.V.

### Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Cinema City International N.V., Rotterdam, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period of six months ended 30 June 2011, and the notes. Management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope

We conducted our review in accordance with Dutch law including standard 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amstelveen, 28 August 2011

KPMG ACCOUNTANTS N.V.

P. Mizrachy RA

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