

**CINEWORLD GROUP PLC**

**No: 5212407**

**Cineworld Group plc  
Annual Report and Accounts 2011**

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**UK No.1**

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Cineworld is the UK's  
leading cinema group

# Five people who have helped us become UK No.1

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# Highlights 2011

|                             |              |                                    |              |
|-----------------------------|--------------|------------------------------------|--------------|
| Group revenue (£m)          | <b>+1.5%</b> | EBITDA* (£m)                       | <b>+7.3%</b> |
| 10                          | 342.8        | 10                                 | 59.0         |
| 11                          | <b>348.0</b> | 11                                 | <b>63.3</b>  |
| 52 weeks                    |              | 52 weeks                           |              |
| Profit before tax (£m)      | <b>+9.9%</b> | Adjusted pro-forma diluted EPS (p) | <b>+6.1%</b> |
| 10                          | 30.4         | 10                                 | 18.1         |
| 11                          | <b>33.4</b>  | 11                                 | <b>19.2</b>  |
| 52 weeks                    |              | 52 weeks                           |              |
| Proposed final dividend (p) | <b>+4.2%</b> | Proposed full year dividend (p)    | <b>+4.8%</b> |
| 10                          | 7.1          | 10                                 | 10.5         |
| 11                          | <b>7.4</b>   | 11                                 | <b>11.0</b>  |
| 52 weeks                    |              | 52 weeks                           |              |

A more detailed review is included in the Financial Performance section of this statement

## Other key highlights

- Number 1 cinema operator in UK/Ireland for 2011 with a box office market share of 24.6% (Rentrak/EDI),
- Box office up 2.7% at £242.1m against 2010,
- Admissions 2.3% higher than 2010 at 48.3m,
- Average ticket price per admission up 0.4% to £5.01 (2010: £4.99) with average retail spend per person slightly softer at £1.69 (2010: £1.73),
- Strong progress on digital conversion with over 75% of the estate now using digital projectors,
- Opening of a new seven screen cinema at Leigh,
- New facility of £170m negotiated in March to finance future expansion and other opportunities

\* EBITDA is defined as operating profit before depreciation, impairments, reversals of impairments and amortisation, onerous lease and other non-recurring or non-cash property charges, transaction, pension, refinancing and reorganisation costs

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## Chairman's Statement

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# Committed to expansion and investment

"The Group remains committed to expansion and investment and it was a busy year for the business in this respect"

## Our focus on the customer experience remains as important as always.

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I am pleased to report yet another successful year of trading for the Group. For the first time in its history, in 2011 Cineworld became the top cinema operator in the combined UK and Irish market for the year with a gross box office market share of 24.6%, according to Rentrak/EDI. It is a clear demonstration of the success of our efforts to increase the competitiveness of our film and retail offers, our pricing and the comfort and accessibility of our cinemas.

It is also a pleasure to report that the Board has proposed a 4.8% increase in the full year dividend for 2011 to 11.0p, which continues the year on year growth in dividends every year since we became a listed company. This proposal reflects the continued growth in revenues and profits and strong cash generation. Our sound financial position was further reinforced when a new £170 million, five year facility was put in place in March 2011.

The Group remains committed to expansion and investment and it was a busy year for the business in this respect. We successfully opened a new seven screen cinema in Leigh on 18 November on schedule in addition to the "The Screening Rooms" concept in Cheltenham in June. The expansion of our digital estate continues according to plan and it is anticipated that the final screen in our estate will be converted in the summer of 2012. Our efforts to purchase the Cinesur chain of cinemas in Spain were unsuccessful as the vendors were unable to meet the contractual conditions for completion. Despite this outcome we remain keen to grow our business and continue to look for suitable expansionary opportunities that are in the best interests of our shareholders.

Our focus on the customer experience remains as important as always. We pride ourselves on offering our customers the widest film range of any of the major exhibitors in the UK. We are committed to expanding our Unlimited subscription programme, a unique offering in UK and Ireland. Investment in technology plays an important part in our plans and we have a major IT systems upgrade in progress which is well advanced and will ensure that we have solid foundations for future growth. At the end of the year we also opened our first IMAX screen at our Edinburgh cinema which has initially performed above expectations. Two more screens are planned for other locations in 2012.

Maintaining and expanding the culture of strong governance throughout the whole organisation remains a key responsibility for the Board. We have followed the public debate on Board diversity with interest and continue to encourage the organisation to consider wider society matters, such as the environment, diversity and health and safety matters and constantly review our practices against perceived best practices.

There were some changes to the Board during the year. On 11 May 2011, Matthew Tooth stepped down from the Board to concentrate on his Blackstone activities. On 10 June 2011, Richard Jones resigned from the Board and as Chief Financial Officer. I would like to thank both Matthew and Richard for their significant support and contributions over the years and for leaving Cineworld in a sound financial position. I would also like to welcome to the Board Philip Bowcock, who was appointed Chief Financial Officer on 1 December 2011. Philip brings a wealth of experience and skills relevant to Cineworld's activities and I look forward to working with him.

We all know that the economic and financial outlook will continue to be challenging and that we face a tough competitive landscape. We have made a sound start to the new financial year and whilst the forthcoming European Football Championship and London Olympics will present further challenges, there is a strong line up of films to support the rest of the year. I remain positive about the future prospects of the Group.

On behalf of the Board, I would like to thank our management and our employees for their hard work and achievements. Our people are highly motivated and passionate about delivering success and the Group remains in a strong financial and competitive position – the result of a successful business model which continues to prove its resilience and which offers opportunities for growth. I look forward to working with management and staff to move the business forward and reporting continued growth to you, our shareholders.

**Anthony Bloom**  
Chairman  
8 March 2012



**Five people who have helped us become UK No.1**

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**Mike Wiles – Glasgow Renfrew Street**

# **The biggest, busiest and best cinema in the UK**

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Mike Wiles is the General Manager of Cineworld Glasgow Renfrew Street, the UK's busiest and tallest cinema. Coping with almost two million admissions a year in a venue that has twelve floors and eleven sets of escalators, Mike's team has won five internal awards in five years at, what is probably, the best cinema in the UK.

## Our Strategy

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A commitment to our long-term strategy is at the heart of our continuing success.

The Group's primary objective is to consolidate and advance its position as one of the leading cinema businesses in the UK and Ireland in terms of sites, screens and admissions and to improve its operating margins, thereby growing shareholder value. In order to achieve this, the Group will continue to

### Our strategy

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Develop and improve its offer to its customers

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Grow box office revenues

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Increase retail spend per customer

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Increase other revenue streams

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Grow the estate through selective new openings, expansions and acquisitions

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Use technology to improve our customers' experience and the efficiency of our operations

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## Action undertaken

➤ We provide the widest range of films of any of the major UK exhibitors. This is facilitated by a high average number of screens per cinema. We maintain high operating standards to ensure that our customers enjoy a good cinema experience in a comfortable, safe and clean environment.

➤ Our bargain day and concession prices have been successful in reaching out to the value segment of the market. Our success in screening 3D with the associated price premium.

➤ We have developed strategic partnerships with household names. Our Unlimited programme has grown to in excess of 280,000 subscribers.

➤ Our success in retail promotions from our staple Combo range to promotions targeted at particular customer types or linked to film activity.

➤ Our screen advertising business, Digital Cinema Medio ("DCM") has made good progress in attracting a wider range of advertisers.

➤ We have increased the range of alternative content screened this year and continued to develop venue hire as a revenue stream.

➤ We became a preferred partner with De Vere Venues to develop conferencing for businesses in respect of three London sites as a trial.

➤ In 2011, we opened a new concept cinema in Cheltenham and a seven screen cinema in Leigh.

➤ We have converted over 75% of our screens to digital projection, which are beginning to yield cost savings and operational efficiencies.

➤ We installed an IMAX screen at our Edinburgh cinema which has increased revenues for the cinema.

➤ We ran a successful trial at our Scottish sites to increase the level of online booking.

➤ We introduced a new ticketing system at three sites and enhanced online booking through iPhone and Android apps.

## The future

➤ We will continue to grow our strong knowledge of films and good relationships with film distributors.

➤ We will seek to improve our understanding of our customers and their interests and continually maintain our cinemas to a high standard.

➤ We will continue to use pricing to improve capacity utilisation and to encourage cinema going.

➤ We will continue to convert to digital to maximise our flexibility in screenings.

➤ We will aim to increase further the number of customers on our Unlimited programme.

➤ We will continue to develop our product ranges and selected promotions that appeal to different consumer groups.

➤ By completing the conversion to digital we aim to improve our offer to advertisers.

➤ We continue to seek further opportunities and improve capacity utilisation at our cinemas.

➤ In the latter part of 2012 we have plans to open a seven screen cinema in Aldershot.

➤ We will continue to develop relationships with developers to obtain the best sites and identify untapped smaller markets which may sustain smaller multiplexes. We will continue to keep abreast of opportunities within the cinema industry at home and overseas.

➤ We anticipate the completion of the installation of digital projection facilities across the remainder of our cinema estate by the end of summer 2012. This will bring efficiencies in the delivery of film and other content to provide a wider choice for our customers and advertisers.

➤ We currently plan to install further IMAX screens at two other locations in 2012.

➤ We look to expand the Scottish initiative across the rest of our cinemas.

➤ We are developing our IT infrastructure further with the roll out of the new ticketing system to all our sites.

## Our Business Model

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The Group remains in a strong financial and competitive position – the result of a successful business model

High Quality of Venue

Operational Delivery

High Quality Film Offer

Sales and Marketing Delivery

High Quality of Retail Offer

The key driver of our business is customers visiting our cinemas to see feature films principally produced by a small number of film studios in the US

With 76 of our 79 cinemas being multiplex (cinemas with five or more screens), we are able to show a broad range of films which are attractive to a wide variety of customer groups

The number of visits ("admissions") multiplied by the net average entrance price ("ticket price") gives the box office revenue. Our policy aims to ensure that our headline ticket prices remain competitive at local level. This is supported by discounted price structures covering off peak (particularly mid-week) and prices targeted at particular sections of the customer base such as pensioners and students.

We operate a subscription service called "Unlimited", which is a fixed monthly (or annual) subscription which enables customers to watch as many 2D films at our cinemas as they wish. Cineworld is currently the only cinema operator in the UK and Ireland to offer this service and to date the service has over 280,000 members.

Admissions, in turn, drive the two other main income sources which are:

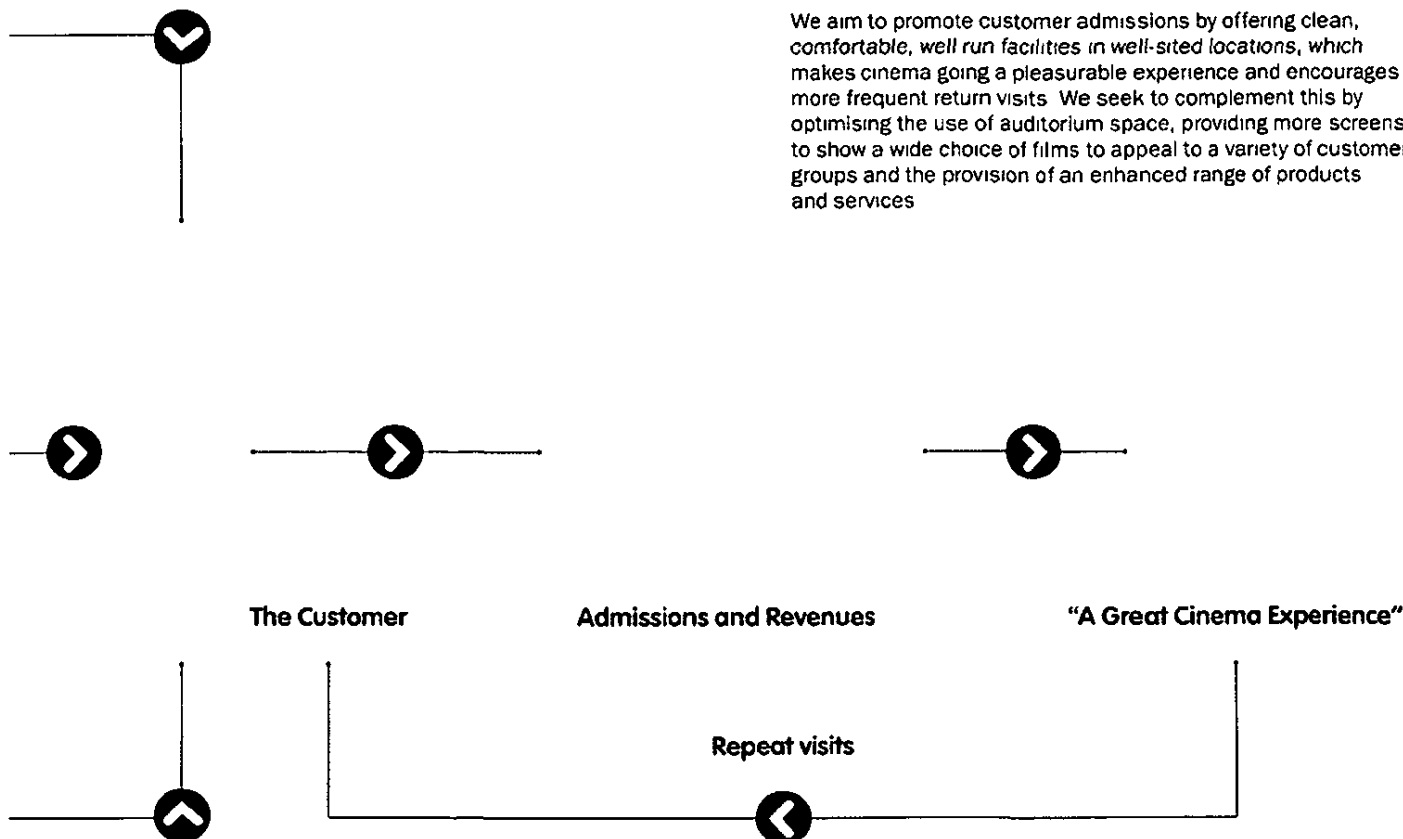
1) Retail sales to our customers comprising principally food and drink for consumption within our cinemas with soft drinks and popcorn historically being the two core products, and

2) Revenue from advertisements shown on our screens prior to feature presentations. Nearly all advertising is arranged through Cineworld's joint venture company, Digital Cinema Media Limited, which sells cinema screen advertising space for the majority of cinema exhibitors in the UK.

There are other ancillary income streams which include sales of 3D glasses, screen/auditorium hire fees, booking fees, income from games machines, gift cards and sponsorship.

The principal direct costs to the business are film rental paid to the film distributors for the rights to show the films and the purchase costs of food and drink sold to customers. The main cinema operating costs are staff salaries and wages, energy, repairs and maintenance and property related costs. Cinema sites are acquired on leaseholds of typically 25 years and property related costs consist of rent, rates and service charges.

We aim to promote customer admissions by offering clean, comfortable, well run facilities in well-sited locations, which makes cinema going a pleasurable experience and encourages more frequent return visits. We seek to complement this by optimising the use of auditorium space, providing more screens to show a wide choice of films to appeal to a variety of customer groups and the provision of an enhanced range of products and services.



## UK and Ireland Market Overview

### Box office revenue in 2011 in the combined UK and Irish market increased 4.9%

The combined UK and Irish cinema market continues to be dominated by three major UK exhibitors, Cineworld, Odeon UCI, and Vue. In total, they account for over 70% of the total market box office and provide over 60% of the total screens in the UK.

Cineworld is listed on the London Stock Exchange, while Odeon UCI and Vue are both privately owned groups. Cineworld is the largest operator in both the UK and the combined UK and Irish markets by box office market shares in 2011 of 26.1% and 24.6% respectively (2010: 26.2% and 24.6% respectively). Cineworld also leads in terms of admissions where it contributed 28.2% of all UK admissions (2010: 27.2%). In terms of number of cinemas and screens, Cineworld has been the second largest operator in the combined UK and Irish behind Odeon UCI.

The rest of the market is represented by smaller multiplex operators and independents which tend to operate non-multiplex cinemas (less than five screens). Cineworld has a small presence in Ireland with one, albeit significant, cinema in Dublin, being the seventh biggest cinema in the combined UK and Irish market in 2011 by gross box office (Rentrak/EDI).

The UK market has remained largely constant for a number of years though the ownership of Vue changed in late 2010. There are significant barriers to entry, both through acquisition and organically. Competition law limits the potential for major consolidation in the industry. The rate of new cinema openings has been falling in recent years, partly due to the limited number of new retail and

leisure development opportunities and the long time to bring developments to fruition. This has been exacerbated more recently due to reduced funding for developers in the present financial climate though confidence has started to improve.

Box office revenue in 2011 in the combined UK and Irish market increased 4.9% to £1.14bn (Rentrak/EDI), whilst UK admissions grew 1.4% to 171m (CEA) – demonstrating the resilience of cinema in the prevailing economic and consumer environment. The low price of going to the cinema compared to other forms of entertainment and leisure and the desire for escapism have remained key attractions.

Approximately 80% of screen advertising revenues in the UK during 2011 were generated by a separate business called Digital Cinema Media Limited ("DCM") which is jointly owned by Cineworld and Odeon UCI. In addition to Cineworld and Odeon UCI, DCM's clients also include Vue (from the beginning of 2011) and a number of other smaller cinema operators. Its only and smaller competitor is Pearl and Dean, which represents the Empire cinema chain and a collection of other smaller operators.

Underpinning the overall success of the cinema industry in 2011 was the strong line up of films, the ongoing conversion to digital projection and the growth in the number of films released in the 3D format, up from 25 in 2010 to 37 in 2011 with a similar number anticipated in 2012.

## Our UK and Irish Presence

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# 27%

of all UK  
admissions

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**Glasgow Renfrew Street**  
Tallest cinema in the UK

# 811

screens

# 79

cinemas

# UK No.1

Box office market leader

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**Sky Superscreen**  
Largest 3D screen  
in Europe, located  
at Cineworld, O2

# 2

**Five people who have helped us become UK No.1**

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**Alison Chase – Academy**

## **Investing in our staff is key to our continued growth**

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Alison Chase is the General Manager of Cineworld Falkirk and one of the rising stars of Cineworld's newest development programme, the Academy. Alison joined the company eight years ago as an Operations Manager in Edinburgh and quickly developed her strategic leadership skills.



**Chief Executive and  
Chief Financial Officers' Business Review**

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**A solid financial  
performance**

**Stephen Wiener**  
Chief Executive Officer

**Philip Bowcock**  
Chief Financial Officer

## Performance Overview

|                      | 52 week<br>period ended<br>29 December<br>2011<br>Total | 52 week<br>period ended<br>30 December<br>2010<br>Total |
|----------------------|---------------------------------------------------------|---------------------------------------------------------|
| <b>Admissions</b>    | <b>48.3m</b>                                            | <b>47.2m</b>                                            |
|                      | £m                                                      | £m                                                      |
| <b>Box office</b>    | <b>242.1</b>                                            | <b>235.8</b>                                            |
| <b>Retail</b>        | <b>81.6</b>                                             | <b>81.6</b>                                             |
| <b>Other Income</b>  | <b>24.3</b>                                             | <b>25.4</b>                                             |
| <b>Total revenue</b> | <b>348.0</b>                                            | <b>342.8</b>                                            |

### Performance Overview

Cineworld delivered a solid financial performance for the year. Total revenue for 2011 was £348.0m, an increase of 1.5% on the prior year (2010 £342.8m). Cineworld's box office increased 2.7% to £242.1m. Average ticket price per admission increased marginally by 0.4% to £5.01 (2010 £4.99) whilst total retail revenues were flat (2010 £81.6m). Other revenues fell by 4.3% to £24.3m (2010 £25.4m).

For the first time Cineworld was the number one cinema operator in the combined UK and Irish market, with a box office market share of 24.6% (2010 24.6%). The Group's admissions were 1.1m, 2.3% higher than the prior year.

Cineworld also remained the number one cinema operator in the UK in terms of box office (Rentrak/EDI) with a market share of 26.1% in 2011 (2010 26.2%).

### Box Office

Cineworld's principal income arises from box office revenues. Higher admissions in the year contributed to a 2.7% increase in box office sales to £242.1m. This equated to a 4.9% increase on a gross box office basis (inclusive of VAT) and was consistent with the UK and Ireland cinema industry as a whole, with industry gross box office up 4.9% against the previous year (Source: Rentrak/EDI), partially lifted by an increase in the rate of VAT from 17.5% to 20% on 4 January 2011.

Cineworld's ticket price increases were partially offset by lower 3D business and higher take up of concessionary and discounted tickets, which meant that the average ticket price per admission increased marginally by 0.4% to £5.01 (2010 £4.99). The average net ticket price (excluding VAT) of 3D of £6.32 compared to 2D of £4.50. Cineworld nevertheless continues to offer its customers good value with the lowest average ticket price of any of the major UK cinema groups. In the current economic climate there remains a notable proportion of customers taking advantage of our lower mid-week ticket prices.

There were strong performances in the year from blockbusters such as 'Harry Potter and the Deathly Hallows Part 2' (the highest grossing film in the UK in 2011), 'Pirates of the Caribbean: On Stranger Tides', 'The Hangover Part II' and 'Twilight Saga: Breaking Dawn - Part 1', which all performed above or in line with industry expectations. Whilst the exceptional performance of 'The King's Speech' was well publicised, its box office performance was nearly matched by 'The Inbetweeners', which was the third

highest grossing film in the UK in 2011. Cineworld maintained its box office market share in the UK in 2011, despite the increased market share of independent cinemas which was at the expense of some of the other large cinema operators. Their gains reflect the fact that they have caught up on conversion to digital projection and the provision of 3D, and they also capitalised on the exceptional successes of a large number of smaller films such as the 'King's Speech', 'Black Swan' and 'Tinker Tailor Soldier Spy', an area in which they tend to outperform.

3D films continued to contribute a sizeable proportion of overall film business with 37 films released in 3D compared with 25 films in 2010. The 3D format continues to remain popular although some value seeking customers have a preference for the 2D format. Strong comparatives due to the outstanding success of films such as 'Avatar', 'Alice in Wonderland' and 'Toy Story 3' in 2010, meant that the proportion of 3D box office nationally was lower year-on-year at 23% (2010 30%). The most notable films in 3D in 2011 were 'Harry Potter and the Deathly Hallows Part 2', 'Pirates of the Caribbean: On Stranger Tides' and 'Transformers: Dark of the Moon'.

We remained true to our strategy of offering customers the broadest range of films on the market. There were a number of smaller and mid-range films that performed well during the year including 'Limitless', 'No Strings Attached', 'Attack the Block' and 'Season of the Witch', with which we achieved higher individual market shares than our overall market average. We also remained the biggest exhibitor of Bollywood films in the UK. Popularity of this genre remains high with films such as 'Ra One' and 'Bodyguard' released during the year. In addition to other specialised and foreign language films played, such as 'Senna' and 'Beautiful', we were the exclusive UK exhibitor for the first ever 3D Polish film 'Battle of Warsaw'.

### Alternative Content

We continued to make good progress during the year in developing our alternative content offering which has been made possible by our digital conversion programme. The most notable events of the year included live music concerts by JLS and the Red Hot Chili Peppers, Lord of the Dance in 3D and the 25th Anniversary show of Phantom of the Opera screened from The Royal Albert Hall. We also screened a number of documentaries such as The Foo Fighters, and Talahina Sky: Kings of Leon. As a one-off event, the men's and women's singles finals of the tennis at Wimbledon were shown in 3D and highlighted the improving technical capabilities of screening live action in 3D. In the field of the performing arts, our core live opera and theatre product came from the New York

It is expected that the digital conversion  
will be completed by the end of the  
summer of 2012.

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**Chief Executive and Chief Financial  
Officers' Business Review**  
continued

Metropolitan Opera, the National Theatre and the Royal Opera House, all of which were well attended. The scope of alternative content is growing, but currently remains a niche offering and therefore a relatively small contributor to box office revenues.

**Retail**

Food and drink sales to our customers are Cineworld's second largest source of revenue and represent 23% of total revenues. Total retail revenues were flat at £81.6m (2010: £81.6m).

Net retail spend per person softened in 2011 to £1.69 (2010: £1.73) reflecting the competitive offers within our promotions. As expected, our customers remained highly value conscious given the tough consumer environment and we successfully responded with a number of value initiatives. We ran promotions targeted at specific customer groups such as families with "ticket combo" offers and to Unlimited subscribers with money-off vouchers.

During the year we focused on the development of offers in order to widen the appeal of bars and help stimulate demand. We also made progress in developing our coffee offer. At the end of the year we commenced work fitting out a new Starbucks coffee franchise trial at our Sheffield cinema to be opened by the end of March. If successful, we have plans to roll-out more franchises in the future.

**Other Income**

Other income includes all other revenue streams outside box office and retail and represents 7.0% of total revenues. Other income fell 4.3% to £24.3m (2010: £25.4m).

The major element of Other Income is screen advertising revenue. Trading at Digital Cinema Media Limited ("DCM"), our joint venture screen advertising business formed in July 2008, was marginally lower than the previous year and reflected the difficult trading environment within the wider advertising industry, especially towards the end of the year. A major success for DCM was winning the account to provide screen advertising to the Vue Cinema circuit with effect from 1 January 2011 which significantly increased DCM's coverage of UK cinemas. During the year, Martin Bowley, Managing Director of DCM resigned and Simon Rees was subsequently appointed in his place on 3 May 2011 and joined the Board on 31 August 2012.

DCM's primary function is to sell advertising time on cinema screens on behalf of Cineworld and its other clients. It also engages in related promotional work between advertisers and cinemas. The management team at DCM has been driving operational efficiencies and effectiveness and during the year has been working on repositioning the operations to handle the digital format. We are excited by the opportunities for DCM when the three major circuits, Cineworld, Odeon and Vue become fully digitised by the end of 2012, which will provide greater flexibility in delivering advertising to cinemas and potentially open up a new segment of the market.

Other income included sales of 3D glasses, ticket bookings and theatre hires. The fall in income was mainly due to a fall in sales of 3D glasses, which reflected the lower 3D admissions compared with the previous year. We have seen more customers re-using their purchased glasses, which demonstrate the success of our initiative to encourage their re-use rather than disposal. In 2011, approximately 55% of customers attending 3D performances were still purchasing 3D glasses, which has not fallen significantly from the 2010 level of over 60%.

**Investment in Digital**

Since 2009, Cineworld has been replacing its 35mm film projectors with digital projectors, which bring many benefits such as removing the need for film reels, greater availability of product and the 3D format. At the end of December 2011, Cineworld had installed digital projectors at over 75% of its screens. It is expected that the conversion will be completed by the end of the summer of 2012. As film studios benefit in a major way financially, they have offered incentives to cinema exhibitors to help fund the conversion.

In June 2010 Cineworld entered into an agreement with Arts Alliance Media ("AAM") whereby AAM utilises its Virtual Print Fee ("VPF") agreements with film distributors to recover financial contributions over a maximum period of ten years, on behalf of Cineworld, from the film studios. Under the AAM deal, Cineworld acquires the digital projectors directly from a third party and retains full control over the timing of their purchase and over their installation and operation. VPFs are expected to cover a substantial proportion of the total acquisition cost over a 7-10 year period. The VPFs are accounted for as a reduction in the cost of film hire thereby benefiting EBITDA. To date the overall VPF process between Cineworld, AAM and the film distributors has operated successfully. We earned over £4.0m of VPFs for the year and will continue to earn VPFs over the 7-10 year recovery period.

### Unlimited Card Programme

Our unique subscription programme, Unlimited, offers a competitive value proposition to our customers. The programme offers customers the opportunity to pay a fixed monthly (or annual) subscription, which enables them to watch as many 2D films (and 3D films on payment of a supplement fee) at our cinemas as they wish. Cineworld prides itself on being the only cinema operator in the UK and Ireland to offer a subscription programme and, to date, has over 280,000 members.

The programme is one of the pillars that underpin our strategy of growing other revenues and admissions. It brings to the Group the financial benefits of regular subscription income reducing the level of fluctuation in our revenues with subscription income contributing over 16% of total box office revenues. It also brings operational benefits by encouraging repeat visits, often at off-peak times. This, in turn, enables us to improve capacity utilisation at our cinemas, provide more retail opportunities and introduce a wider range of films than our competitors. As a result, we continued to enjoy significant market share among the smaller, less mainstream films in 2011.

### Initiatives and Developments

We are keen to embrace the opportunities in improving our technology to allow more intelligent and integrated marketing, booking and ticketing using the internet and mobile devices and we are devoting time and resources to exploit the potential this offers and to ensure we remain competitive.

Activity on our consumer website increased in the year, recording over 54m visits, which puts it comfortably in the top 40 most visited websites in the UK (as reported in the IMRG Experian Hitwise Hot Shops List) during the year. In addition, our successful mobile enabled web booking service is now complemented by our applications ("apps") for both the iPhone and Android phones which together attracted a further 35m visits in the year to the mobile channels.

The "MyCineworld" membership on the website continued its expansion with a total database of over 900,000 members. In the year we ran a trial at selected cinemas to encourage more users to join and book tickets through MyCineworld, by removing online booking fees and offering discounted tickets if booked through MyCineworld, which yielded positive results. Compared with the rest of Cineworld's sites, the rate of joiners of

MyCineworld was faster than the rest of the UK whilst the rate of online bookings grew significantly compared with the rest of the cinemas.

The growth of MyCineworld is an important part of our strategy to engage further with our customers. It will enable us to improve our customer retention and help us to encourage more frequent visits to our cinemas. Furthermore, by transferring bookings online, we aim to improve customer service by reducing queues at the box offices and to convert more space to other activities which will improve the customer experience at our cinemas and help drive incremental revenues.

During the year we commenced projects to upgrade our cinema point-of-sale system and supporting systems covering finance and customer relationship management. These new systems will increase our transactional capabilities and support better communication with more of our customers. A number of pilot sites were successfully trialled with the new point-of-sale system and, since the end of the year, the programme to roll out the system to all cinemas has commenced. We anticipate completing all implementations by the end of the summer of 2012.

In addition, we have continued to improve utilisation of cinemas at off peak times particularly through the hire of individual auditoriums. We continue to offer our cinemas as venues for other purposes from corporate conferences and private film hires, through to educational meetings and religious gatherings on Sunday mornings. Recently Cineworld became a preferred partner with De Vere Venues and will utilise De Vere's sales and call centre capabilities to increase the venue hire business. This is currently being run at a few selected sites as a trial with a view to expand it to cover more sites in the future.

### People and Diversity

Our people are core to the success of our business and to make Cineworld a great place to work. We continued to invest in our people throughout the Group with programmes such as The Academy programme for high potential cinema managers through to Step Up programmes for multifunctional staff. Also for the first time in 2011, we conducted a values survey amongst our people. The outputs are being used to ensure our people are engaged, motivated and retained.

## Expansion remains a key strategic priority for the Group.

### Chief Executive and Chief Financial Officers' Business Review continued

We are an equal opportunity employer and seek to recruit, retain and promote staff on the basis of their qualifications, skills, aptitude and attitude. A wide range of applicants are encouraged to apply for all roles and we have a wide and diverse workforce. We still believe that the single most important factor is to identify, recruit and retain the people we consider, on merit, to be the best candidates for each particular role.

#### Key Business Relationships

We have worked hard at developing good working relationships with a wide range of film studios, both major and independent. We work closely on combating film piracy and on simplifying the film buying process. Our focus on driving cinema admissions and on providing our customers with a wide range of films through our film strategy has resulted in many opportunities for us to work with film studios on promoting smaller films to a wider audience.

We continue to work very closely with developers, landlords and council planners to ensure that we maintain a pipeline of new sites for the future. In addition we work closely with our principal suppliers, on promotions that help drive ticket and retail sales. We seek to manage relationships with our suppliers fairly and to work in accordance with our aspirations as set out in our ethical policy, a cornerstone of which is treating others as you expect to be treated yourself.

Our partnership with Tesco through its Clubcard loyalty programme continued to thrive, aided by Tesco advertising to promote the ticket offer, which helped to reinforce Cineworld's brand profile nationally.

#### The Environment and Health and Safety

As a multi-site business, the Group is conscious of its total energy consumption and the amount of waste material generated and therefore continues to work to reduce both energy usage and the quantity of non-recyclable waste materials produced. During 2011, initiatives taken include reducing the number of deliveries to our sites, reducing packaging and removing non-biodegradable plastic from our retail products, and trialling energy reduction measures.

With over 4.8 million customer visits, the safety and welfare of Cineworld's customers, staff and contractors are of prime importance. Annual cinema audits covering Fire, Food and Health and Safety are undertaken on an unannounced basis in order to reflect the true operation of health and safety at each site. Overall, the initiatives implemented in 2011 have shown improvements in site standards compared to last year's results.

#### Expansion

Expansion remains a key strategic priority for the Group over the medium term and we have ensured that we have the financial capability, through a new increased bank facility, to pursue such opportunities. Our strong financial position and our good track record of driving high footfalls through our cinemas make us an attractive partner for property developers.

In November 2011, as scheduled, we opened a seven screen cinema in Leigh, which increased the Group's estate to 79 cinemas with 811 screens. Work has begun on site for a new seven screen cinema in Aldershot, which is currently planned to open in the fourth quarter of 2012. Whilst the uncertainty over development financing and timing of new projects continues, we have seen improvements in confidence in the property market during the year with renewed interest in existing proposals as well as new plans and ideas being tabled. We have over 10 development sites signed and have a good pipeline of further opportunities.

The addition of sites will facilitate the expansion of our Unlimited and MyCineworld propositions into new locations, thereby growing our business.

In June 2011, we opened a new concept cinema called "The Screening Rooms", a three screen cinema in Cheltenham. The concept offers higher levels of comfort and service within a premium environment. Results to date have been positive and we are actively looking for new sites to expand the concept.

We were disappointed that the attempt to purchase the Cinesur chain of cinemas in Spain was unsuccessful due to circumstances outside our control, but we continue to look for suitable expansionary opportunities that are in the best interests of our shareholders.

### Key Trends and Factors Potentially Affecting the Future

The future success of the Group in 2012 will principally remain dependent on the strength of the film releases during the year. Sequels and franchises will continue to contribute a significant number of the higher profile blockbuster films. Many such films outperform the original film or concept, so the film studios will continue to look to capitalise on proven successful formulae. The film release programme for 2012 includes a strong line up of potential blockbusters.

Some film studios may seek to maximise their revenues using whatever distribution means available including video on demand. While initial limited trials have been unsuccessful, such initiatives are expected to continue and may put added pressure on the current theatrical release window in which new films are only shown in the cinema before being released via other media.

The importance of non-US markets to the US film studios is increasing and the UK remains an important market outside the US. "Harry Potter and the Deathly Hallows Part 2" and "Pirates of the Caribbean: On Stranger Tides" achieved about 75-80% of their worldwide box office revenues outside the US. The UK market also showed more resilience in 2011 than the US, which suffered a fall in box office of 5.4% against 2010. The success of UK films such as "The King's Speech" and "The Inbetweeners" and the stable level of cinema going in the UK should further encourage Hollywood to support both locally produced product and product that appeals to the UK and Irish market.

It is anticipated that 2012 will see a similar number of 3D films as did 2011 (37 3D films compared with 25 in 2010). Studios have also started to convert some older film titles to 3D, thereby adding to the range of 3D film choice. With completion of our conversion to digital projection in 2012, we will be well placed to capitalise on this product.

The price differential between 3D and 2D films is expected to continue and, with the number of 3D films planned for release similar to last year, should help support the overall revenue levels. Films appealing to an older teenage and young adult audience, such as Transformers, have had the highest take up of 3D (as high as 80%) whilst films which appealed to younger children have so far tended to attract a lower proportion of 3D business.

Within alternative content, plays and opera will continue to provide solid business through established providers such as the New York Metropolitan Opera and the National Theatre. Otherwise the source of alternative content remains fragmented. Stabilisation and consolidation amongst suppliers should increase the range of content, improve the operational delivery and result in financial savings. Revenues from alternative content are anticipated to grow further, albeit from a small base.

The general economic and consumer environment is expected to remain uncertain for the foreseeable future and will continue to present trading challenges. While customers have been prepared to pay higher ticket prices to see 3D films, there are certain segments of the customer base that prefer to see 2D for cost reasons. Demand in the wider advertising industry is anticipated to remain challenging, which would be reflected in cinema screen advertising. However, full digital conversion by DCM's major exhibitor clients (Cineworld, Odeon and Vue) anticipated for late 2012 will improve DCM's competitive position and support its objective of gaining a larger share of advertisers' budgets.

We expect that the strong mid-week business enjoyed over the last couple of years will continue. The appeal of "Bargain Tuesdays" and "Orange Wednesdays" promotions demonstrate that customers continue to seek value in the current economic climate.

Finance for many continues to be challenging which could delay the development of new cinemas. Nevertheless we remain committed to expanding our business – through opening more cinemas and through the acquisition of other cinema portfolios – facilitated by our strong financial position.

Cineworld will continue to offer a highly compelling choice within the wider range of entertainment and leisure activities. We believe going to the cinema remains one of the best value forms of popular entertainment and will continue to attract audiences who seek quality film product and where the immersive viewing experience remains unmatched by any other media.

## Financial Performance

**Chief Executive and Chief Financial  
Officers' Business Review**  
continued

|                                                                            | 52 week<br>period ended<br>29 December<br>2011<br>Total | 52 week<br>period ended<br>30 December<br>2010<br>Total |
|----------------------------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|
| <b>Admissions</b>                                                          | <b>48.3m</b>                                            | <b>47.2m</b>                                            |
|                                                                            | <b>£m</b>                                               | <b>£m</b>                                               |
| <b>Box office</b>                                                          | <b>242.1</b>                                            | <b>235.8</b>                                            |
| <b>Retail</b>                                                              | <b>81.6</b>                                             | <b>81.6</b>                                             |
| <b>Other</b>                                                               | <b>24.3</b>                                             | <b>25.4</b>                                             |
| <b>Total revenue</b>                                                       | <b>348.0</b>                                            | <b>342.8</b>                                            |
| <b>EBITDA*</b>                                                             | <b>63.3</b>                                             | <b>59.0</b>                                             |
| <b>Operating profit</b>                                                    | <b>42.6</b>                                             | <b>37.1</b>                                             |
| <b>Financial income</b>                                                    | <b>1.6</b>                                              | <b>1.6</b>                                              |
| <b>Financial expenses</b>                                                  | <b>(9.7)</b>                                            | <b>(8.2)</b>                                            |
| <b>Refinancing interest expense</b>                                        | <b>(1.1)</b>                                            | <b>-</b>                                                |
| <b>Net financing costs</b>                                                 | <b>(9.2)</b>                                            | <b>(6.6)</b>                                            |
| <b>Share of loss from joint venture</b>                                    | <b>-</b>                                                | <b>(0.1)</b>                                            |
| <b>Profit on ordinary activities before tax</b>                            | <b>33.4</b>                                             | <b>30.4</b>                                             |
| <b>Tax on profit on ordinary activities</b>                                | <b>(9.5)</b>                                            | <b>(9.4)</b>                                            |
| <b>Profit for the period attributable to equity holders of the Company</b> | <b>23.9</b>                                             | <b>21.0</b>                                             |

\* EBITDA is defined as operating profit before depreciation, impairments, reversals of impairments and amortisation onerous lease and other non-recurring or non-cash property charges, transaction pensions, refinancing and reorganisation costs

**EBITDA and Operating Profit**

EBITDA was up 7.3% at £63.3m (2010: £59.0m) and was achieved through better cost margins as box office takings were spread across a wider range of films compared with last year while virtual print fee income was higher than the previous year, reflecting the first full year of operating the Arts Alliance contracts. These were offset by lower sales of 3D glasses and by higher property costs (reflecting the full year cost of the O2 cinema, acquired in June 2010) and in general increases in operating costs. Nevertheless operating profit at £42.6m was 14.8% higher than 2010 of £37.1m.

Operating profit included a number of non-recurring and non-trade related costs. The primary charges in the year related to transaction and reorganisation of £3.9m. The main component was £3.2m of reorganisation costs of which the majority was related to the digital conversion and to harmonise audio/visual work across the whole circuit. The annual labour savings resulting will recover the initial costs within two years. The remainder was £0.7m of transaction costs relating to the refinancing and the attempted acquisition of Cinesur. Offsetting these costs was a £1.7m credit which was due to the change in the inflation assumption from the Retail Price Index to the Consumer Price Index in valuing the defined benefit pension scheme and £0.5m from refinement of a dilapidation provision.

The depreciation and amortisation charge (included in administrative expenses) in the period of £18.9m was higher than last year (2010: £17.2m), reflecting the higher expenditure on digital projectors to date.

**Finance Costs**

On 31 March 2011, the Group refinanced its existing debt. The new five year facility consists of a £70m term loan with repayments of £2.5m every six months commencing June 2011 and a revolving credit facility of £100m. This will provide more flexibility for the

Group in its expansion activities as well as other growth opportunities. Interest will be charged on the facility at 1.95% above LIBOR. There are two covenants: net debt to EBITDA of 3 times and pre-rent EBITDA to interest plus rent of 1.5 times.

The Group considered its hedging strategy at the time of the refinancing and concluded that it was not economic to close out the existing swap, which at 31 March 2011, was in a liability position of £2.2m. In addition, it took out two new interest rate swaps to hedge the remainder of the £70m term loan. Under IFRS, there is a requirement for the existing swap to be re-assessed to establish whether it still meets the criteria for hedge accounting. The hedge was considered to be ineffective, and as a result, its fair value on 31 March 2011 of £2.2m was recycled to the income statement as an exceptional finance expense. In addition, mark to market movements on the ineffective portion of the hedge from the point of refinancing up until 29 December 2011 of £1.1m was also recorded as a credit in the income statement.

The net financing costs of £9.2m included the £2.2m charge on closing out the hedge upon refinancing and the £1.1m credit arising from the mark to market movement, as described above and the ongoing financial expenses of £9.7m, offset by financial income of £1.6m. The financial expenses comprised of £5.3m in relation to interest on the bank loans which was higher than the previous year and reflected the higher margin charged on the facility. The balance of the financial expenses were non-cash amounts arising from the amortisation of financing costs, the unwinding of discount on onerous leases, the pension scheme and from the finance lease. The financial income of £1.6m was primarily from the actuarial valuation of the returns on the defined benefit pension plan assets and was at a similar level reported for 2010.

Find further information  
on our business at  
[www.cineworldplc.com](http://www.cineworldplc.com)

### Earnings

Overall profit on ordinary activities before tax was £33.4m, 9.9% higher than 2010 of £30.4m. Basic diluted earnings per share amounted to 16.7p (2010 14.7p). Taking account of the one-off, non-trade related items described above, totalling £1.7m and the charge of £1.1m relating to the hedge on the previous bank loan (included in net financing costs), the adjusted pro-forma diluted earnings per share were 19.2p (using a normalised tax rate of 26.0%) compared with 2010 of 18.1p. The weighted average number of shares in issue in 2011 was 142.0m including 607,096 shares issued during the year.

### Taxation

The overall tax charge was £9.5m giving an overall effective tax rate of 28.4% for the year (2010 30.9%). The corporation tax charge in respect of the current year was £8.5m. There was a credit of £3.3m relating to prior years, which was offset by £4.3m of deferred tax charges principally relating to capital allowances (the difference between the tax written down value of the capital allowance and the net book value of the underlying assets).

### Cash Flow and Balance Sheet

The Group continued to be strongly cash generative at the operating level. Total cash generated from operations was £55.3m compared with £50.7m in 2010 primarily due to the better trading levels against the weather affected December 2010. Better trading also resulted in higher creditor levels at the end of 2011 compared with 2010.

Net cash spent on capital for the year was £25.0m. Included in this cash expenditure was £14.8m in relation to the purchase of digital projectors. £2.3m (net of reverse premium) was spent on the new sites in Leigh and the new Screening Rooms concept in Cheltenham. The balance of other capital expenditure of £7.9m was for equipment replacement, site refurbishments and expenditure on various initiatives such as the replacement of the cinema point of sale and upgrading automated ticket sales points. The high level of internally generated cash has funded our entire capital expenditure whilst repaying term debt of £5m and paying dividends of £15.2m. Fees of £1.8m were paid in respect of the refinancing.

Net debt at the end of December 2011 of £101.4m was broadly level with 2010 of £100.8m. Net debt included a £4.5m liability valuation of the interest rate swap hedge on the bank loan (2010 £2.8m liability) which primarily reflected a larger hedged amount of £65.0m under the new facility. The liability position arose because the fixed rate of interest payable on the swap was higher than the LIBOR rate receivable on the hedged portion of the loan for the remainder of its five-year term.

As in previous years, the Group remained well within its banking covenants on its new facility and achieved financial targets which enabled it to benefit from a low margin on its bank debt of 1.95%

above one month LIBOR. The bank loan at the end of the year was comfortably below two times the EBITDA of 2011. The Group enjoys the security of a substantially larger revolving credit facility of up to £100.0m (of which £32m remained drawn at the end of the year) as part of the overall £170.0m bank facility which further enhances the Group's overall liquidity.

### Dividends

The Directors are recommending to shareholders for approval a final dividend in respect of the period ended 29 December 2011 of 7.4p per share, which taken together with the interim dividend of 3.6p per share paid in October 2011, gives a total dividend in respect of 2011 of 11.0p per share, a 0.5p increase on the level in 2010. Subject to shareholder approval, the final dividend will be paid on 5 July 2012 to shareholders on the register at 8 June 2012.

### Board Changes

On 11 May 2011, Matthew Tooth left the Board, having stayed on in an independent capacity, following the divestment by The Blackstone Group ("Blackstone") of its interest in the Group in November 2010. Blackstone's and Matthew's contribution have been of great value. On 10 June 2011, Richard Jones resigned from the Board and as Chief Financial Officer, having started with the business over 15 years ago and having made a significant contribution over that period. On 1 December 2011 Philip Bowcock was appointed to the Board as Chief Financial Officer.

### Current Trading and Looking Ahead

The current financial year has started satisfactorily with a reasonable level of business carrying over from the Christmas period with the main films being "Mission Impossible: Ghost Protocol", "Sherlock Holmes: A Game of Shadows" and "Girl with the Dragon Tattoo". The performances of films released so far this year such as "The Artist", "Iron Lady" and "War Horse", whilst receiving critical acclaim and being in line with internal expectations, have been lower than the same period last year which benefited from the unexpected success of "The King's Speech".

The film release schedule for the remainder of 2012 is strong and takes into account the timing of the European Football Championships and the Olympics. Amongst those films planned for release are "Skyfall" (the next Bond film), "The Hobbit", "The Dark Knight Rises" (the latest in the Batman franchise) and "The Amazing Spiderman". This release schedule for the rest of the year together with the completion of the digital rollout, and the continued expansion of MyCineworld and Unlimited, means the business is well placed to maximise its opportunities.

**Stephen Wiener**  
Chief Executive Officer  
8 March 2012

**Philip Bowcock**  
Chief Financial Officer



**Five people who have helped us become UK No.1**

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**David Spence – General Manager of the Year**

## **Prestigious venues and high standards of excellence**

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With Europe's largest 3D screen, an exciting relationship with Sky and as Cineworld's flagship venue for movie premieres, Cineworld at the O2 has a lot to live up to. At the helm is David Spence, who won the hugely coveted General Manager of the Year award at Cineworld's Annual Management Conference last year, receiving a standing ovation from all his colleagues and peers.



## Risks and Uncertainties

Understanding and managing risks and uncertainties which affect our business plays an ever increasing role in the operations of the Group.

The following is a summary of the principal business specific risks and uncertainties facing the Group rather than all risks. If any of these risks or other unforeseen risks materialise, they could have a serious adverse effect on the Group's business and its financial condition, in turn impacting upon the value of its securities in issue. Where possible and appropriate, the Group seeks to mitigate these risks and uncertainties.

Some factors which may mitigate particular risks and uncertainties are also set out below. In determining whether a risk is principal or not regard has been taken of the Group's risk register, the probability of a particular risk crystallising and the impact it would have if it did.

|                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Availability of Film Content</b>                    | <p>Cinema-going in the UK is driven primarily by output from Hollywood, which is dominated by six film studios. There is a risk that these studios may seek to negotiate film hire terms less favourable to Cineworld. Such a move could be countered in part by Cineworld's negotiating position due to its market share in the UK and Irish markets.</p> <p>During periods where there are fewer or no major films to drive cinema attendance, our box office revenues may decline. Cineworld's Unlimited card subscription service generates regular subscription revenues which helps to offset lower box office receipts during quieter trading periods. It is also part of Cineworld's wider strategy to promote interest in a range of films beyond the traditional Hollywood blockbuster in such areas as Bollywood, other foreign language and small and mid-range films.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Digital Conversion Costs</b>                        | <p>Film studios have agreed to help finance Cineworld's conversion to digital projection and it expects to recover up to 90% of the total costs of conversion over a 7-10 year period. By mid 2012, Cineworld will have incurred the costs of converting 100% of its projection facilities to digital, which could be up to £40m. There is a risk that payments are not received, or that full recovery of the costs does not happen within the 10 year term of the agreed arrangements. There are binding contracts put in place by Arts Alliance Media ("AAM") from which Cineworld benefits, for the recovery of these payments. Cineworld chose AAM because of the quality of its systems and experience in administering this type of contract and, to date, all payments have been received in accordance with the contractual terms. As time passes, the risk of non-recovery of this expenditure will reduce.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Alternative Media and Advancement of Technology</b> | <p>Film studios may choose to release their films through other channels instead of primarily through exhibition at cinemas. The box office success of a film is often, however, an important factor in establishing its value in subsequent film distribution channels such as streaming, DVD, cable and pay television and the internet.</p> <p>Also the film studios may seek to reduce the release window (the period between the film being released at the cinema and other distribution channels as mentioned above). The window is currently agreed at 16 weeks and three days in the UK, to capitalise on box office awareness and success. Cinema exhibitors have historically mitigated this threat by refusing to screen films with reduced release windows or insisting on paying reduced film rentals which has minimised reductions to date.</p> <p>The existence of DVD (and video before that) has proven the ability of cinema to co-exist with alternative media. Additionally the increase in use of digital and 3D technology in cinemas should encourage the film studios to continue to use cinemas as the primary release channel.</p> <p>The continuing development of existing and new technology (such as 3D television and internet streaming) may introduce new competitive forces for the film-going audience. The cinema does, however, provide a unique social experience that to date cannot be matched by watching films at home. Also trials by studios to release films on the internet during the theatrical release window have, so far, not proved to be commercially successful.</p> |
| <b>Film Piracy</b>                                     | <p>Film piracy (aided by technological advances) has long-term implications for the business and industry as it may eventually force film studios to invest less in films resulting in the release of fewer films and/or an increase in the use of other channels for releasing films. The quality of copies pirated by recording from a cinema screen have improved and can be of a similar quality to films pirated from other media and copies made in the earlier manufacture and distribution stages. It is, however, currently not possible to produce a 3D pirated version of the original film from a portable recording device used in a cinema. So far, the impact of piracy has been higher on alternative media (especially on DVD) than on cinema. Cineworld works with and continues to be a strong supporter of initiatives by The Federation Against Copyright Theft.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

|                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Screen Advertising Revenue</b>               | <p>Screen advertising accounts for a significant proportion of the Group's profits and the level of revenues earned will be affected by the overall demand for advertising and the competitive pressures for that advertising spend. In addition, lower levels of admissions may impact the level of advertising which the business can attract resulting in reduced screen advertising revenues.</p> <p>The formation of Digital Cinema Media Limited in 2008, with a joint venture partner, was a positive step towards taking closer control of future screen advertising revenues. The advantages of screening advertisements to a captive audience in cinemas and the flexibility of digital media to deliver more and varied advertising are potential opportunities to attract more advertisers and to generate higher revenues.</p>                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Poor Location Selection and Construction</b> | <p>The selection of the wrong location for the development of a new cinema, or its poor construction, could result in lower than expected returns and a series of poor decisions on location, or poorly constructed cinemas, could seriously impact the Group. Each potential site is reviewed carefully and the management team are experienced in the choice of location for, and development of, new sites.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>UK and Global Economy</b>                    | <p>The main driver of cinema-going is the film, although it is recognised that macro-economic influences may affect cinema-going and the level of retail spend per customer on each visit. In addition, the price of such items as energy and foodstuffs has a direct impact on costs which we may not be able to pass on to customers. With cinema being a less expensive form of entertainment and leisure, economic downturns may benefit cinemas at the expense of other entertainment and leisure activities.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Availability of Capital</b>                  | <p>The cost and availability of finance, both debt and equity, will affect the Group's ability to undertake investment and expansion. This has been highlighted by the recent developments in the financial world which have caused severe reductions in lending and reduced investor confidence. Limited availability of capital has impacted property developers who have not been able to proceed with developments which would have included new cinemas.</p> <p>The failure of one of the banks used by the Group could result in the loss of deposits and/or banking facilities. Banks are monitored and reviewed and deposits spread between a number of institutions to reduce the risk.</p> <p>Reduced lending may also affect the financing of film productions which could reduce the supply of films and/or delay their production and releases in cinemas.</p> <p>The Group put in place a new bank facility in 2011 which is sufficient for the existing business needs. In addition, the Group has a promising pipeline of potential new sites and its strong covenant is attractive to developers and places Cineworld as a preferred tenant in many proposed new leisure developments.</p> |
| <b>Competition</b>                              | <p>Existing competitors could change their strategies or a new competitor could enter the market at a local or national level reducing trade. The cost of developing new sites or acquiring existing cinemas are, however, barriers to entry as are the lack of readily available cinemas for acquisition.</p> <p>Cinemas also compete for customers against other leisure and entertainment attractions. In the short-term, major events such as the Olympics and other sporting tournaments may impact attendance levels for their duration. Also, over the longer term, the aging of the UK population may result in lower attendances and lower sales of key retail products because of changes in fashions and tastes. Scheduling of appropriate films and the marketing of targeted retail items should help ensure cinema remains an attractive entertainment choice and maintain spend per person. Also retaining flexibility in staffing levels should help to minimise any impact on profits.</p>                                                                                                                                                                                                 |
| <b>Reputational Risk</b>                        | <p>The reputation of the Group is key in its relationship with all stakeholders including employees, customers and investors. Damage to its reputation could impact its earnings, growth prospects and the ability to secure capital funding. The Group has a strong customer services focus and invests in maintaining its estate and seeks to ensure that its reputation is safeguarded by corporate governance structures and risk management measures including specific Fraud and Ethics policies.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Failure of IT Systems and Suppliers</b>      | <p>The failure of, or the unsuccessful upgrading or replacement of, the Group's IT systems, including its website, ticketing and finance systems and Unlimited card scheme administration, could seriously impact the Group's continued success. The Group's website and Unlimited card scheme administration are hosted by different specialist companies. In addition, all suppliers are monitored and the Group employs an appropriately qualified team to maintain its in-house systems with external experts being employed to oversee, and help manage, major projects involving the upgrading or replacement of such systems.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Government Regulations and Actions</b>       | <p>Cineworld's business and operations are affected by central and local regulations covering such matters as planning, the environment, health and safety, licensing, food and drink retailing, data protection and the minimum wage. Failure to comply with this type of legislation may result in fines and/or suspension of the activity or entire business operation. In addition, changes to pension legislation such as automatic enrolment and regulation relating to the Group's defined benefit schemes, could result in additional costs from funding pension obligations or from changes in the way pension schemes are administered.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |



**Five people who have helped us become UK No.1**

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**Tamlin McKinnon – Head Office, Customer Service**

# **We exemplify Cineworld's Customer First strategy**

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Tamlin McKinnon is Head of the Customer Services team  
With more admissions than any other cinema chain in the  
UK, Cineworld is focused on encouraging constructive  
feedback, addressing problems and instigating change  
to improve the customer experience across  
Cineworld's cinemas



## Corporate Responsibility

The Board acknowledges its duty to ensure the Group conducts its activities responsibly and with proper regard for all its stakeholders.

The Board is committed to ensuring that an appropriate standard of corporate governance is maintained throughout the Group. This commitment includes recognition by the Group of the importance of taking into account its corporate social responsibilities ("CSR") in operating the business. In this context, Cineworld seeks to integrate CSR considerations relating particularly to social, ethical, health and safety, and environmental issues in its day-to-day operations. The Board acknowledges its duty to ensure the Group conducts its activities responsibly and with proper regard for all its stakeholders including employees, shareholders, business partners, suppliers and local communities. Further information in respect of the Group's activities is set out below together with illustrative examples.

### Community

Cineworld observes the British Board of Film Classification's guidelines for film classification unless the local authority specifies otherwise, within this framework however, it seeks to show as wide a range of film product and other screen content as possible. Screenings are frequently driven by local communities and their wishes. For example, Cineworld was once again the number one exhibitor for Bollywood product in the UK during the period.

In addition, Cineworld has continued to show a wider range of film product than its main competitors including non-English language titles, smaller British releases and independent American productions. This year has also seen Cineworld showing Polish releases for the first time.

Cineworld has continued its commitment to alternative content in the form of live screenings from the Metropolitan Opera and the National Theatre. Cineworld also showed a wide range of other cultural and sporting events such as "Phantom of the Opera", "Kings of Leon" and "Wimbledon" (in 3D). Screening such a wide range of content means that we attract a wider range of audiences into our cinemas and helps us distinguish ourselves in the marketplace from our principal competitors.

2011 saw Cineworld working again with various charities, local government and community groups. Activities included Cineworld staging a series of screenings with children's hospices in conjunction with BAFTA, running charity premieres of "Arthur Christmas" and continuing its partnership with "The Times Spelling Bee". Undertaking such activities helps to make the Cineworld brand better known in local communities.

Cineworld was also a venue partner for several festivals including the Bradford International Film Festival, the Jameson Dublin Film Festival, and the Glasgow Film Festival all of which help to promote Cineworld's brand through the wider film industry and increase awareness of the Cineworld brand in audiences that might not normally associate Cineworld with this kind of wider film based activity.

### Access for All

Cineworld has been keen to promote a "Movies for All" policy. Increasing accessibility results in local cinemas playing a fuller role in the communities in which they operate and offer larger potential audiences. On Saturday mornings it is still possible for children to see films for £1 which is a price that has not been increased for over 15 years. Senior citizens and students receive discounts at certain times. Cineworld also subscribes to the Cinema Exhibitor Association ("CEA") card scheme which allows registered disabled customers to bring a carer with them free of charge.

All new cinemas are designed to exceed current statutory requirements to provide buildings which are technically advanced, yet meet high operational standards in terms of public service, safety and accessibility. They are designed to remove physical features which can hinder the use of the facility by the less physically able, so that auditoriums are as accessible as possible given the restrictions of any particular location. The opportunity is also taken to enhance access within cinemas when they undergo major refurbishment as part of an ongoing programme of improvements. During the year, these initiatives resulted in three cinemas receiving awards/nominations from their local communities for disability access.

Cineworld continued to support the CEA Disability Working Group and, internally, the business's own Disability Focus Group met regularly to review all aspects of disability access and the improvement in the services provided in this area. It also participated in a session of the All Party Parliamentary Group for Disability which was focusing on access to cinemas for disabled customers.

During 2011, over 1500 new Cineworld staff received induction training in "Disability Awareness and Welcoming Disabled Customers" and more than 800 staff received refresher training. Cineworld also delivered in excess of 120,000 audio descriptive screenings, over 10,000 subtitled screenings and 14 cinemas, in response to requests from local groups, ran special autism screenings. With the Cineworld estate due to be fully digital by late 2012, further expansion of all these services will be possible.

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Shaun Jones – National Operations Manager  
with the Cineworld reward recipients

### Film Piracy

With films being released first in cinemas, there remains a significant risk of piracy within the cinema industry. Cineworld continues to work closely with the CEA, The Federation Against Copyright Theft ('FACT') and INFAOT Ireland in order to help reduce and prevent film piracy. In line with Cineworld's operational strategy, each cinema management team has a responsibility to ensure that they do everything reasonably practicable to protect the intellectual property rights of films and alternative content exhibited within the cinemas.

With the ever changing threat of evolving technologies and smaller undetectable recording devices, Cineworld seeks to mitigate this risk by constantly reviewing and developing its training programme, policies and procedures to ensure its staff are able to effectively prevent film piracy. Night vision technology is utilised throughout the circuit and there is an increased vigilance around high profile vulnerable release titles. During the year, Cineworld received recognition from film distributors including Paramount and Warner Bros for action taken in preventing piracy within the business.

The annual FACT awards were held in November and a total of eleven rewards were presented nationally to UK film exhibitors. Four of these awards were presented to Cineworld staff at Cineworld cinemas at Bexleyheath, Ilford, Wood Green and Glasgow Renfrew Street for their efforts in preventing piracy.

### Environment

Cineworld seeks to comply with all relevant environmental legislation and to operate in an environmentally sensitive manner. The Directors acknowledge the impact that the business has on the environment and seek to mitigate it. Often changes which help to mitigate our environmental impact also reduce our operating costs. For instance, in 2011, over 50% of all the promotions run by Cineworld were operated solely online, removing the need for hundreds of thousands of tickets to be printed, distributed, reconciled and subsequently sent back to the promoter.

Being a multi-site business, the Group is conscious of its total energy consumption and the amount of waste materials generated, and is actively working to reduce both energy usage and the quantity of waste materials produced that cannot be recycled. During 2011, there was an increased focus on raising energy awareness at cinema sites with the aim to promote best practice and to reduce energy usage through better housekeeping and operating more efficiently. The installation of automated meter reading gas meters has now been completed at 72 sites (2010: 41).

Weekly energy reports for gas and electricity are regularly reviewed and used to identify those sites requiring greater focus on energy reduction.

A pilot energy efficiency project at the Cardiff cinema site succeeded in reducing carbon emissions at the site by over 15%. Based on the success of this project, six other cinema sites had similar works rolled out in 2011. The energy consumption for these sites has been, and will be, monitored into 2012 to ensure similar reductions in carbon emissions are obtained, and further sites will be identified for similar energy saving projects in 2012.

The Group is looking to reduce further its carbon footprint and, linked with this, to improve its mid table ranking in the Carbon Reduction Commitment ("CRC") league table which was published on the 8 November 2011. Across 73 comparable sites, the Group managed a total energy reduction of 5.5% in 2011 compared to 2010.

The conversion to digital technology, which continued during the year, further reduced Cineworld's environmental impact. The move away from 35mm celluloid prints reduces the use of raw materials for the production of bulky prints using chemical processes, which ultimately are shredded as they are unable to be recycled at the end of their relatively short life. In addition, the distribution of digital content through small hard drives greatly reduces the delivery costs and associated carbon footprint. Throughout the year, over 40% of film content (2010: 25%) and 100% of all alternative content was delivered in digital format. Ultimately cable or satellite delivery should remove the carbon impact almost completely.

The introduction of 3D technology has brought its own challenges with the use of special disposable 3D glasses. In early 2009, Cineworld started to recycle these glasses and then in November 2009, it altered its pricing structure from a premium for 3D films with "free" glasses to a smaller premium with customers being required to purchase glasses separately. This change has significantly encouraged customers to retain their glasses for future use and, during 2011, on average around 45% of audiences for 3D films brought with them glasses obtained from previous visits (2010: 40%).

### Retail

Cineworld takes a proactive stance on how it markets food and drink in its cinemas and continually looks to respond to the challenges of marketing responsibly through offering more healthy options and reducing its impact on the environment, whilst maintaining the wide overall choice that customers demand.

2011 saw a considerable investment in a number of initiatives aimed at ensuring individuals reached their full potential.

### Corporate Responsibility continued

We are committed to offering a wide range of products and therefore recognise the need to provide our customers with the nutritional information they need to help them make an informed decision on what they buy. As part of this commitment, we continue to review the sizes of our dispensed soft drinks and popcorn and explore what we can offer in the way of more healthy options. An example of this was the introduction of our new pre packaged salt and sweet popcorn for use in our children's munchbox. Each bag contains less than 40g of popcorn and this ensures a consistency of portion in each one sold not available on loose dispensed popcorn so customers can know more precisely what their children are eating.

Each time there is a requirement for a new or replacement contract, all proposed arrangements are carefully reviewed to ensure that they are not only commercially beneficial, but also appropriate account is taken of environmental considerations.

During 2011, a tender process was undertaken to identify a new wholesale distributor which could satisfy our business requirements, but also reduce our environmental impact by reducing the number of deliveries to Cineworld's 79 cinemas. The successful distributor proposed using multi-temperature vehicles which enables one vehicle to deliver both ambient and frozen products. Switching to this distributor has meant that we have started to reduce the number of suppliers delivering directly to our sites. Less suppliers delivering directly means fewer deliveries to each site, a smaller environmental impact and cost savings.

A number of other initiatives were commenced in 2011 to help reduce energy consumption and waste. Examples include reducing packaging on our Christmas gift boxes by making them more streamlined and removing ancillary plastic panelling which was not bio degradable and working with Ben and Jerry's on a trial to collect empty plastic containers for recycling.

#### Our People

Cineworld's people are crucial to ensuring the ongoing success of the business. All of our human resources initiatives are aimed at ensuring Cineworld is a great place to work and in turn, a great place to watch films. Once again, 2011 saw a considerable investment in a number of initiatives aimed at ensuring individuals reached their full potential and were able to play a full part in the teams in which they work.

Our internal Academy programme for high potential cinema managers commenced early in 2011 and the initial intake of seven are now half way through the two year programme. Working towards a level 7 qualification accredited by the Institute of Leadership and Management, the participants are due to complete the programme by the end of 2012. The Academy is developing key talent in a crucial area of our business to run our most complex and largest sites and ensures that when vacancies arise internal candidates are well placed to secure advancement and Cineworld does not lose any of its most talented people.

In addition to the regular and ongoing "core courses" which give continual learning opportunities to all our managers, the business rolled out a customer experience programme called the "Greatest Show on Earth" which sought to help people at all levels within our cinemas to understand the type of environment required to ensure good customer service. The year also saw the rollout of various training programmes focused on those staff affected by the continuing conversion to digital projection. The courses were offered to help staff take up alternative roles thereby enabling them to remain in the business if they wished and the Group to retain experienced cinema staff.

Cineworld is proud that a high proportion of management and supervisory positions are held by employees who have started within the organisation at lower levels. The nine month "Supervisor Step-up Programme" which develops supervisors up to management level has proved a huge success with 80% of new managers now coming via this route. In December 2011, the Group introduced a further step up programme which will develop team members up to supervisor level over a six month period.

National Vocational Qualifications continue to be supported by the business and we currently have 68 active learners on programme with a further 86 having achieved qualifications this year. These qualifications importantly provide a route to progression for those at lower levels of the organisation and helps the Group ensure that the cinemas have the skills within the workforce that are crucial to our ongoing success.

For the first time in 2011, a survey was undertaken to understand more about the values of our people. Around 500 people completed the survey. A number of focus groups and interviews across all levels of the business took place. The outputs are being used to ensure that our people are engaged, motivated and retained which, in turn, will help Cineworld remain a great place to work. The values have already been weaved into our 2012 performance management framework to ensure that we truly embed the most effective way of working with our people. Also for the first time in 2011, performance ratings were linked directly to individuals' bonus awards – this has helped ensure that everyone is recognised and rewarded for their individual contribution to the business.

All employees throughout the Group participate in the success of Cineworld through bonus schemes and Cineworld is proud that for the 17th consecutive year bonuses were paid to all qualifying staff in 2011. Cineworld is also committed to increasing the number of employees who hold shares in the Group. In December, circa 100 members of staff benefited from the second maturity of the SAYE Share Option Scheme and were able to acquire Cineworld shares at £0.93, a price well below the prevailing market value, with the money they had saved in the scheme over a period of three years. Following its success, another invitation to staff to participate in the scheme is planned for 2012.

### Diversity

Cineworld is an equal opportunity employer and seeks to recruit, retain and promote staff on the basis of their qualifications, skills, aptitude and attitude. A wide range of applicants are encouraged to apply for all roles. In employment related decisions, the business complies with all relevant legislation including that specifically targeted at preventing discrimination and such principles are embedded through the business by requisite policies.

### Safety

The ongoing management of the day to day health, safety and welfare of Cineworld's customers, employees and contractors is of major importance with over 48 million customer visits a year. Further steps have been taken this year to ensure that each cinema management team has the knowledge, understanding and tools necessary to effectively manage health and safety to a high standard within its sites and to keep all our staff, customers and other visitors as safe as possible.

During the 2010/11 year, all of the cinemas were subject to a Fire, Food and Health and Safety Audit which were conducted on an unannounced basis by our external consultants. Sites achieved an average score of 90% (with 85% being considered the acceptable level of performance) and, in doing so, have continued to make good progress compared to the previous year with the average score increasing by 4% overall. Follow up audits were undertaken at the sites where the standards were not found to be at the level expected (score below 85%) by the Group, and regular monthly compliance monitoring was completed for all remaining sites.

With effect from the end of 2010, additional mid-year compliance audits were also carried out by the General Managers, and also annually by Regional Managers at each site. These audits were designed to provide the means of checking that fire, food, health and safety standards are truly maintained at each cinema, to aid the identification of any new issues arising within the cinemas and to check that any existing issues are being managed properly.

Early indications from the 2011/12 year audit cycle are that site standards have been maintained with an average pass mark being maintained at a similar level to the previous figure. As previously these audits are being undertaken on an unannounced basis in order to reflect the true operation of health and safety at each site.

As at 29 December 2011, the split between male and female members of staff at different levels of the business was as follows:

|        | Cinema Sites                      |                     |                         |                  | Head Office       |                 |                 |                    |
|--------|-----------------------------------|---------------------|-------------------------|------------------|-------------------|-----------------|-----------------|--------------------|
|        | Multi functionals and Supervisors | Operations Managers | Deputy General Managers | General Managers | Head Office Staff | Middle Managers | Vice Presidents | Board of Directors |
| Male   | 54%                               | 62%                 | 64%                     | 73%              | 56%               | 69%             | 87%             | 89%                |
| Female | 46%                               | 38%                 | 36%                     | 27%              | 44%               | 31%             | 13%             | 11%                |

# 5

**Five people who have helped us become UK No.1**

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**Steven Wollaston – Leigh**

## **State of the art facilities and leading online ticketing**

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Steven Wollaston is the General Manager of Cineworld's newest seven-screen cinema in Leigh, near Manchester. Cineworld Leigh opened in November 2011 with state of the art digital facilities and MyCineworld offering cheaper tickets online.



## Directors' Biographies

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### **1 Anthony Herbert Bloom Chairman – Age 73**

Anthony Bloom joined the Board in October 2004 as Chairman and has served as Chairman of Cine UK Limited since the business was founded in 1995. He was previously Chairman and Chief Executive of The Premier Group Limited (South Africa) and a director of Barclays Bank (South Africa). Mr Bloom holds Bachelor of Commerce and Bachelor of Law degrees from the University of Witwatersrand in South Africa and a Masters of Law degree from Harvard Law School. He was a Sloan Fellow at the Stanford Graduate School of Business. In 2002, Mr Bloom was awarded the degree of Doctor of Law (H.C.) by the University of Witwatersrand in recognition of his contribution towards the establishment of a non racial society in South Africa.

### **2 Stephen Mark Wiener Chief Executive Officer – Age 60**

Stephen Wiener joined the Board in October 2004. He has 42 years' experience in the cinema industry, starting in the US as an usher whilst a full time student, and rising through various roles culminating in Vice President for Cineplex Odeon in New York City. He then moved to Warner Bros Europe in 1991 to become Managing Director. In 1995, he left to found Cine UK Limited and developed the business into a chain of 34 cinemas before it was acquired by Blackstone in October 2004. At the time of the UGC acquisition, he was appointed Chief Executive Officer of the combined Group. He is also a Non-Executive Director of Digital Cinema Media Limited, the screen advertising company 50% owned by Cineworld.

### **3 Peter Wodehouse Williams Non-Executive Director – Age 58**

Peter Williams joined the Board in May 2006. He is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. He is Chairman of Erno Laszio, a luxury skincare business based in New York, the Senior Independent Director of ASOS plc and Sportech PLC, a Non Executive Director of Silverstone Holdings Limited and is a member of the Design Council. Peter was appointed as Chairman of Blacks Leisure Group plc in August 2011, where he led the creation of a turnaround strategy. In the past, he has also served on the boards of the EMI group, JJB Sports plc, GCap Media plc, Capital Radio Group plc. In his executive career, he was Chief Executive at Alpha Group plc and prior to that Chief Executive of Selfridges plc where he also acted as Chief Financial Officer for over ten years. Mr Williams has a degree in Mathematics from Bristol University and is a chartered accountant.

### **4 Philip Bowcock Chief Financial Officer – Age 43**

Philip Bowcock joined the Board in December 2011 as the Chief Financial Officer. His experience spans senior financial roles in property, retail and leisure industries, having acted as Financial Controller at Barratt Developments plc, Finance Director for Tesco's UK property portfolio, Vice President of Finance at Hilton Group and latterly as Finance Director at Luminar Group Holdings plc. Mr Bowcock has a degree in Economic History and is a chartered management accountant.

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**5. Thomas Berard McGrath****Non-Executive Director – Age 56**

Thomas B. McGrath joined the Board in May 2005 and is Chairman of the Nomination Committee. Previously he was Chief Operating Officer of Viacom Entertainment Group and President of Time Warner International Broadcasting, prior to which he worked for Columbia Pictures. Mr McGrath is Senior Managing Director of Crossroads Media Inc., Executive Chairman of Key Brand Entertainment and serves on the Board of Prime Focus World. Mr McGrath holds an MBA from Harvard University.

**6 David Ossian Maloney****Non-Executive Director – Age 56**

David Maloney joined the Board in May 2006. He is the Senior Independent Director, Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees. Mr Maloney is currently a Non-Executive Director of Enterprise Inns plc, Micro Focus International plc and Ludorum plc and the Chairman of Reed & Mackay Limited, Brandon Hire Limited and the Board of Trustees of Make A Wish Foundation (UK). Previously, he was the Chairman of Hoseasons Holdings Ltd, a Director of Virgin Mobile Holdings (UK) plc and of Carillion plc and held a number of senior positions, including Chief Financial Officer for Le Meridien Hotels & Resorts, Thomson Travel Group plc and Avis Europe plc. Mr Maloney holds a degree in Economics from Heriot Watt University, Edinburgh and is a fellow of the Chartered Institute of Management Accountants.

**7 Martina Ann King****Non-Executive Director – Age 51**

Martina King joined the Board in July 2010. She is a member of the Remuneration Committee. Martina is currently Managing Director of Aurasma which is a division of Autonomy and a Non-Executive Director of Capita plc and Debenhams plc. Previous roles include Managing Director of Capital Radio PLC and MD of Yahoo! UK and Europe.

**8 Eric (Rick) Hartley Senat****Non-Executive Director – Age 62**

Rick Senat joined the Board in July 2010 and is a member of the Audit Committee. Rick has over 30 years' experience of the film industry. He joined Warner Bros in 1976, becoming its Senior Vice-President for Business Affairs in Europe. Among the projects with which he was closely associated are the Harry Potter films, Greystoke, Batman, Superman and many more. He retired from Warner Bros after 25 years' service. He was a Director of the legendary and newly revived film company Hammer Film Productions, and has served as Vice Chair of the British Film Institute. Currently, he is a Non-Executive Director of Bank Leumi (UK) plc and Chairman of the London Film Museum. Mr Senat is a graduate of University College London and a solicitor.

## Directors' Report

The Directors present their Annual Report and the audited financial statements for the 52 week period ended 29 December 2011. The comparative period is for the 52 week period ended 30 December 2010.

### Principal Activity

The Company acts as an investment holding company for a group of companies whose principal activity is the operation of cinemas in the UK and Ireland for the exhibition of films and related retail activity. The Directors do not expect any change in the principal activity during the next financial period.

### Strategy and Business Review

The strategy of the Group is set out on pages 6 and 7 and a review of its business and operations, including the main trends and factors likely to affect its future development and performance, is set out in the Chief Executive and Chief Financial Officers' Business Review on pages 14 to 21. An explanation of the Group's business model and an overview of the markets in which it operates are set out on pages 8 and 9.

Key performance indicators are set out below and the principal risks and uncertainties are set out on pages 24 and 25. Information about environmental, employee and community issues is set out in part below and also in the Corporate Responsibility ("CR") section on pages 28 to 31.

The Strategy, Chief Executive and Chief Financial Officers' Business Review, Risks and Uncertainties, the Group's business model, overview of its markets and CR sections are incorporated by reference into this Directors' Report. Certain statements in these sections are forward looking and so involve risk and uncertainty because they relate to events, and depend upon circumstances, that will occur in the future and therefore results and developments can differ materially from those anticipated. The forward looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward looking statements. Nothing in this Annual Report should be construed as a profit forecast.

To the extent it is material, the Group's approach to the use of financial instruments in respect of its financial risk management objectives and its exposure to price, liquidity and cash flow risk is set out in Note 21 to the financial statements and are also incorporated in this report by reference.

### Key Performance Indicators ("KPIs")

|                           | 52 week<br>period ended<br>29 December<br>2011 | 52 week<br>period ended<br>30 December<br>2010 |
|---------------------------|------------------------------------------------|------------------------------------------------|
| Admissions                | 48.3m                                          | 47.2m                                          |
| Box Office Revenue        | £242.1m                                        | £235.8m                                        |
| Average ticket price      | £5.01                                          | £4.99                                          |
| Retail spend per customer | £1.69                                          | £1.73                                          |
| EBITDA                    | £63.3m                                         | £59.0m                                         |

The Board of Directors and executive management receive a wide range of management information. The following are the principal measures of achievement that are reviewed on a regular basis to monitor the development of the Group.

### Admissions

This measure is the ultimate driver of the business and primary indicator of business volume.

### Box Office Revenue

This measure represents the principal revenue stream of the Group and is used generally within the cinema industry as the measure of market share (as reported by Rentrak/EDI).

### Average Ticket Price and Retail Spend per Customer

Average ticket price is calculated by dividing total net box office revenue by total admissions. It is a composite of the various pricing structures operated during the day and for different promotions for each cinema. Together with admissions this gives box office, which is the primary economic measurement for the industry. Retail spend per head is a measure of the value of the retail activity and our ability to generate other revenues directly from our customers. Both box office and retail measures are stated excluding VAT.

### EBITDA

EBITDA (as defined on Note 1 to the financial statements) serves as a useful proxy for cash flows generated by operations and of the Group's ability to finance its capital expenditure and pay dividends.

### Results and Dividends

The results for the Group for the 52 week period ended 29 December 2011 are presented under International Financial Reporting Standards ("IFRS") as adopted by the EU. The results for the period are set out in the Group Consolidated Statement of Comprehensive Income on page 53. The results for the parent company are drawn up under UK GAAP.

An interim dividend of 3.6p per share was paid on 7 October 2011. The Directors are recommending a final dividend of 7.4p which, if approved by the shareholders at the Annual General Meeting ("AGM"), will be paid on 5 July 2012 to shareholders on the register on 8 June 2012.

### Financial Risk Management

The Board of Cineworld regularly reviews the financial requirements of the Group and the risks associated therewith. The Group does not use complicated financial instruments, and where financial instruments are used it is for reducing interest rate risk. The Group does not use derivative financial instruments for trading purposes. Group operations are primarily financed from retained earnings and bank borrowings (including an overdraft facility). Further details of Capital Management are set out in Note 21. In addition to the primary financial instruments, the Group also has other financial instruments such as debtors and trade creditors that arise directly from the Group's operations.

The Group considers the currency risk on consolidation of the assets and liabilities of its Irish subsidiary, Adelphi Carlton Limited, to be of low materiality and no hedging is provided. The Group's trade and operations are otherwise based in the UK.

The Group refinanced its bank loan in March 2011 and entered into a new five year facility agreement consisting of a £70m term loan and £100m revolving credit facility to replace its previous facilities of £165m. The whole term loan, an amount of £70m, was hedged in accordance with the terms of the facility agreement on a weighted average fixed rate of 4.6% whilst the revolving credit facility attracted a floating interest of LIBOR plus 1.95%. The Group has taken steps to ensure that the swap is accounted for as a hedge and that changes in its valuation are recognised through reserves. Further information is provided in Note 21 to the financial statements.

### Directors and Directors' Interests

Short biographical details of the Directors of the Company, who held office at the end of the period under review, are given on pages 34 and 35

During the year, there were a number of Board changes

On 11 May 2011, Matthew Tooth, who had originally been appointed to the Board by the Blackstone Shareholders under the Relationship Agreement (both as defined below) as a Non-Executive Director, resigned from the Board to concentrate on his Blackstone activities

On 10 June 2011, Richard Jones resigned from the Board and as the Chief Financial Officer of the Group. Philip Bowcock was recruited to replace him and he was appointed to the Board and to the role of the Chief Financial Officer of the Group on 1 December 2011

The Articles of Association (the "Articles") require one third of the Directors to retire by rotation at the AGM and, being eligible, to offer themselves for re-election. In addition under the Articles, any Director appointed during the year must resign and stand for re-election at the next AGM. However, in accordance with best practice, all the Directors are offering themselves for re-election this year at the AGM for the first time. Following the Board evaluation process undertaken in November 2011, the Board is satisfied that each Director standing for election continues to show the necessary commitment and to be an effective member of the Board due to their skills, expertise and business acumen

Details of the Directors' interests in the issued share capital of the Company at the beginning and end of the year under review are set out below. Details of the Directors' remuneration and information on their service contracts are set out in the Directors' Remuneration Report on pages 45 to 50

Details of the Directors' interests in the ordinary shares of the Company arising under the Group's Share and Option Schemes are set out in the Remuneration Report on pages 49 and 50. No rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial period. None of the other Directors had any disclosable interest in the shares of Group companies and there have been no changes to Directors' share interests between 29 December 2011 and the date of this report

None of the Directors has a material interest in any contract of significance to which the parent company or a subsidiary was a

party during the financial year, other than as disclosed above, in their service contracts or letters of appointment described on page 47 and 48 and in Note 24, Related Parties

### Conflicts of Interest

The Articles were amended at the 2008 AGM to permit the Board to consider, and if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company. There is in place a formal system for the Board to consider authorising such conflicts whereby the Directors who have no interest in the matter decide whether to authorise the conflict. In deciding whether to authorise the conflict, the non-conflicted Directors are required to act in the way which they consider would be most likely to promote the success of the Company for the benefit of all shareholders and they may, and do, impose conditions to be attached to such authorisations. The Board believes that the arrangements for reporting and considering such conflicts operate effectively

### Share Capital and Control

The Company has only one class of share capital formed of ordinary shares. All shares forming part of the ordinary share capital have the same rights and each carries one vote. Details of the share capital, and changes in it over the period, are shown in Note 20 to the financial statements. There has been an increase in the issued share capital between 29 December 2011 and the date of this report as a result of the issue of 47,066 ordinary shares to satisfy options being exercised under the Cineworld Group Sharesave Scheme

The holders of ordinary shares are entitled to receive Company reports and accounts, to attend and speak at General Meetings of the Company, to appoint proxies and to exercise voting rights

There are no restrictions on transfers of, or limitations on the holding of, ordinary shares and there is also no requirement of any prior approval of any transfers other than those which may be applicable from time to time under existing laws or regulation or if a person with an interest in 0.25% of the issued share capital held in certificated form has been served with a disclosure notice and fails to respond with the required information concerning interests in that share capital. No ordinary shares carry any special rights with regard to control of the Company. There are no restrictions on voting rights attaching to the ordinary shares. The Company is not aware of any known agreements between shareholders that restrict the transfer of voting rights attached to ordinary shares

The Directors who held office at the end of the financial period had the following interests in the ordinary shares of the Company

| Director       | Ordinary shares held directly |                  | Ordinary shares held by companies in which a Director has a beneficial interest |                  |
|----------------|-------------------------------|------------------|---------------------------------------------------------------------------------|------------------|
|                | 29 December 2011              | 30 December 2010 | 29 December 2011                                                                | 30 December 2010 |
| Anthony Bloom  | —                             | —                | 1,723,224                                                                       | 1,723,224*       |
| Stephen Wiener | 1,746,430                     | 1,593,800        | —                                                                               | —                |
| Thomas McGrath | 131,000                       | 131,000          | —                                                                               | —                |
| David Maloney  | 10,000                        | 10,000           | —                                                                               | —                |
| Peter Williams | 20,000                        | 10,000           | —                                                                               | —                |

\* Shares are held by a nominee for a Jersey based discretionary trust of which Mr Bloom is one of the potential beneficiaries

## Directors' Report continued

The Company's Articles set out the rules governing the appointment and replacement of Directors. In addition the Articles, together with English law, define the Board's powers. Changes to the Articles must be approved by shareholders in accordance with the Articles themselves and legislation in force at the relevant time. Updated Articles were adopted at the Company's AGM in May 2010 mainly to reflect the implementation of the final provisions of the Companies Act 2006.

### Major Shareholder Voting Arrangements

Until November 2010, Blackstone Capital Partners (Cayman) IV L P, Blackstone Capital Partners (Cayman) IV A L P and Blackstone Family Investment Partnership (Cayman) IV A L P (together the "Blackstone Shareholders") in aggregate controlled the exercise of 20.09% of the rights to vote at general meetings of the Company. The Company and the Blackstone Shareholders entered into a Relationship Agreement dated 26 April 2007 to regulate the relationship between them. The Relationship Agreement terminated in November 2010 when the Blackstone Shareholders and their affiliates collectively held less than 10% of the voting rights of the Company as a result of selling their entire shareholding. Following termination of the Relationship Agreement, there are no special major shareholder voting arrangements.

### Essential Contracts and Arrangements

The Group has a number of contractual agreements with its suppliers in support of its business. While the loss of some of these arrangements may cause temporary disruption, none on their own are considered essential to the business of the Group.

### Change of Control

There are no significant agreements which take effect, alter or terminate in the event of a change of control of the Company except that under its current banking arrangements a change of control may trigger a right for lenders to require early repayment of all sums outstanding.

No Director or employee is contractually entitled to compensation for loss of office or employment as a result of a change in control, however, provisions in the Company's share schemes may cause options or awards granted to employees to vest on a change of control.

### Substantial Shareholdings

At 29 December 2011, the Group had been notified, pursuant to the Disclosure and Transparency Rules of the following interests in the voting rights of the Company. Notifications confirming a party's interest has gone below the threshold notification level have not been included.

|                                       | Voting Rights | % of Total Voting Rights | Nature of Holding            |
|---------------------------------------|---------------|--------------------------|------------------------------|
| Artemis Investment Management Limited | 20,887,938    | 14.71                    | Direct interest              |
| Parvus Asset Management (UK) LLP      | 20,172,460    | 14.21                    | See Note 1 below             |
| HSBC Holdings PLC                     | 14,163,717    | 10.00                    | Direct and indirect interest |
| AXA Investment Managers S A           | 7,850,070     | 5.53                     | Not disclosed                |
| BlackRock Inc                         | 7,132,407     | 5.02                     | See Note 2 below             |
| Legal & General Group Plc             | 7,120,701     | 5.01                     | Direct and indirect interest |
| Rathbone Brothers PLC                 | 7,024,615     | 4.95                     | Indirect interest            |

\* Percentages are stated as at the time of notification.

Note 1 Disclosed as an equity swap being a financial instrument with similar economic effect to a Qualifying Financial Instrument.

Note 2 Disclosed as an indirect interest in 6,539,188 shares plus a CFD (covering 593,219 voting rights) being a financial instrument with similar economic effect to a Qualifying Financial Instrument.

No additional notifications were received in the period from 29 December 2011 up to 7 March 2011 (the last practical date to include such notifications).

### Issue of New Shares and Purchase of Own Shares

At the AGM held on 18 May 2011, shareholders gave authority for the allotment of shares up to an aggregate nominal value of £946,500 subject to certain conditions. This authority will expire on the earlier of the 2012 AGM and 17 August 2012. No shares have been issued under this authority except 404,503 ordinary shares in respect of the exercise of share awards and options maturing under the Cineworld Group Performance Share Plan and the Cineworld Group Sharesave Scheme. Details of the 607,096 ordinary shares issued in the period in this respect are set out in Note 20.

Also at the AGM held on 18 May 2011, shareholders gave authority for the purchase of up to 21,280,000 ordinary shares in the Company for cancellation or placing into treasury. No shares have been acquired under this authority.

The Board proposes to seek shareholder approval at the AGM to renew both the Company's authority to issue new shares and its authority to purchase its own ordinary shares for cancellation or placing in treasury. Details of the proposed resolutions are set out in the Notice of AGM (the "AGM circular") dispatched to shareholders with the Annual Report and Accounts (or notification of their availability).

### Annual General Meeting

The Notice convening the AGM, to be held at The Cineworld Cinema, South Side Shopping Centre, Wandsworth High Street, London, SW18 4TF at 11.30 am on 21 May 2012, is contained in the AGM circular. Details of all the resolutions to be proposed are set out in the AGM circular.

### Directors' and Officers' Insurance and Indemnities

The Company maintains insurance cover for all Directors and Officers of Group companies against liabilities which may be incurred by them whilst acting as Directors and Officers. As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors as permitted by law and by the Articles against liabilities they may incur in the execution of their duties as Directors of the Company.

### Political and Charitable Contributions

The Group's policy, which it has followed, is to make no donations to political parties. During the year, the Group made charitable donations of £39,500 (2010 £38,000) to a variety of local and national charities in the UK. In addition the Group supported over 30 film screenings on behalf of various charities in the year and responded to requests from charities and schools with over 1,100 free tickets.

### Payment of Suppliers

Cineworld Group plc, which holds the investments in the Group's companies, does not trade itself and does not have suppliers as defined by the Companies Act 2006. The Directors believe, however, it would be helpful to give the disclosures on a consolidated basis. The Group seeks the best possible terms from suppliers appropriate to its business and in placing orders gives consideration to quality, delivery, price and terms of payment. The Group does not follow a specific payment code but has a policy to pay its suppliers in accordance with the specific terms agreed with each supplier. The average number of days' payments to suppliers that were outstanding at 29 December 2011 for the Group was 27 days (2010 24 days).

### Employees

The policy is to recruit, employ and develop staff on the basis of the suitability of their qualifications and experience, regardless of sex, marital status, race, nationality, age, sexual orientation or religion. It is Company policy to give full and fair consideration to applications for employment from disabled people, having regard to their particular abilities and aptitudes. Full consideration is given to continuing the employment of staff who become disabled, including considering them for other reasonable positions.

The health, welfare and development of the Group's employees remain a priority. With the intent of attracting, recruiting, developing and retaining key employees, Cineworld maintains a number of policies and procedures for the benefit of its employees, which can be accessed by employees via the Human Resources department and via the Human Resources manual on the Company's intranet. Continuing education, training and development are important to ensure the future success of the Group and employee development is encouraged through appropriate training. The Group supports individuals who wish to obtain appropriate further education qualifications and reimburses tuition fees up to a specified level.

Regular and open communication between management and employees is essential for motivating the workforce. Briefings are held regularly to provide updates on the Group's business and to provide opportunity for questions and feedback. There is regular consultation with the Broadcasting Entertainment Cinematograph and Theatre Union ("BECTU"). The Company also maintains both an internet website which is freely accessible and an intranet site accessible to all head office employees and at all cinemas.

### Corporate Governance

Details of the Group's Corporate Governance arrangements are set out in the Corporate Governance statement on pages 40 to 44 which together with the Directors' Remuneration Report and the Directors' responsibilities statement form part of this Report together with any other parts cross referenced from it.

### Corporate Responsibility

Cineworld recognises its responsibilities to the communities in which it operates and to operate in a way that respects the environment and people within those communities. Further details on its approach to such matters are set out in the Corporate Responsibility section on pages 28 to 31.

### Significant Events since the Year End

There were no significant events.

### Disclosure of information to Auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

### Auditors

KPMG Audit Plc have confirmed that they are willing to continue in office and a resolution proposing their reappointment, at a fee to be agreed by the Directors, will be proposed at the AGM.

### Funding and Liquidity

Information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Chief Executive and Chief Financial Officers' Business Review and the Risks and Uncertainties section on pages 24 and 25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive and Chief Financial Officer's Report on pages 14 to 21. In addition Note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

As highlighted in Note 16 to the financial statements, the Group meets its day-to-day working capital requirements through its bank facilities which consist of a £70m term loan plus £100m revolver which matures in 2016. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's products, and (b) the availability of bank finance in the foreseeable future.

The bank facility is subject to two covenants: the ratio of EBITDA to net debt and the ratio of EBITDAR (pre-rent EBITDA) to net finance charges. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility, including compliance with the bank facility covenants.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

By order of the Board

### R B Ray

Company Secretary  
Cineworld Group plc  
8 March 2012

Registered Office  
Power Road Studios  
114 Power Road  
Chiswick  
London W4 5PY

Registered England No 5212407

## Corporate Governance Statement

### Compliance with the UK Corporate Governance Code

The Board is committed to ensuring that an appropriate standard of corporate governance is maintained throughout the Group. The principal governance rules applying to UK companies listed on the London Stock Exchange for the period covered by this statement are contained in the UK Corporate Governance Code published by the Financial Reporting Council in May 2010 (the "Governance Code") and which is available on its website [www.frc.org.uk](http://www.frc.org.uk). For the year ended 29 December 2011, the Board considers that the Company was compliant with the provisions of the Governance Code except that the Chairman did not meet the independence criteria on his appointment (Code Provision A3.1). Further details are set out below under the heading "Directors and Directors' Independence", otherwise this report explains how the Company has complied with the provisions of the Governance Code. The information required to be disclosed by the Disclosure and Transparency Rules ("DTR") 7.1 and 7.2 is set out in this statement except that information required by DTR 7.2.6 which is set out in the Directors' Report on pages 36 to 39 and is incorporated in this statement by reference.

### The Board

The Group is ultimately controlled by the Board of Directors of the Company. The Board is responsible for the overall leadership of the Group and for determining its long term objectives and commercial strategy to create and deliver strong and sustainable financial performance to maintain and enhance shareholder value. In fulfilling its role, the Board ensures that necessary financial and other resources are available to enable the Group's objectives to be met.

The Board meets regularly six times a year and also once for a strategy day. The meetings follow a formal agenda which includes matters specifically reserved for decision by the Board. The Board also meets, as and when necessary, to discuss and approve specific issues. All Directors receive notice of such meetings and are given the opportunity to comment on the issues being discussed if they are unable to attend the meeting.

A schedule of matters specifically reserved for decision by the Board has been agreed and adopted. These matters include setting Group strategy, approving an annual budget and medium term forecasts, reviewing operational and financial performance, approving major acquisitions, divestments and capital expenditure, succession planning, approving appointments to the Board and of the Company Secretary, and approving policies relating to Directors' remuneration and contracts.

The Board is supplied on a monthly basis with detailed management accounts and an overview of Group financial and operational information.

### Directors and Directors' Independence

At the start of the year, the Board was composed of nine members, consisting of the Chairman, two Executive Directors and six Non-Executive Directors, five of whom were considered independent. In May 2011, a Non-Executive Director, not considered independent, resigned and in June 2011, the Chief Financial Officer resigned. A new Chief Financial Officer was appointed in December 2011. Consequently, at the end of the year, the Board was composed of eight members, five of whom were considered independent.

Under provision A3.1 and B1.1 of the Governance Code, Anthony Bloom, Chairman of the Company, was not considered by the Board to be independent as at the time of his appointment as Chairman of the Company he also served as chairman on the board of another company, Cine-UK Limited, within the Group and had held this position since its foundation in 1995. The Board considers that, although Anthony Bloom was not viewed as independent on appointment, his knowledge and understanding of the business are such as to justify him retaining the role as Chairman. Matthew Tooth, a Non-Executive Director who resigned in May 2011, was also considered by the Board not to be independent by virtue of his position at the Blackstone Group, with whom the Blackstone Shareholders were affiliated. Until November 2010, the Blackstone Shareholders were significant shareholders in the Company. The names of the Directors at the year end together with their biographical details are set out on pages 34 and 35.

The terms and conditions of appointment of Non-Executive Directors are set out in letters of appointment and are made available for inspection by any person at the Company's registered office during normal business hours and will be available at the Annual General Meeting ("AGM"). Further details of the letters of appointment of the Non-Executive Directors and the service contracts of the Executive Directors can be found in the Directors' Remuneration Report on pages 47 and 48.

### The Roles of the Chairman and Chief Executive

The posts of Chairman and Chief Executive Officer are separate. The division of responsibility between the Chairman of the Board, Anthony Bloom, and the Chief Executive Officer, Stephen Wiener, is clearly defined in writing.

The Chairman, together with the Chief Executive Officer, leads the Board in determination of its strategy having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders. The Chairman is responsible for organising the business of the Board ensuring its effectiveness and setting its agenda. The Chairman facilitates the effective contribution of Non-Executive Directors and oversees the performance evaluation of the Board and he regularly discusses matters with the Non-Executive Directors without the Executive Directors being present.

The Chairman performs a number of external roles, but the Board is satisfied that these are not such as to interfere with the performance of the Chairman's duties to the Group.

The Chief Executive Officer has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group. He holds regular meetings with his Executive Team consisting of senior executives who assist him in this task.

### Independent Directors and the Company Secretary

The Governance Code recommends that, in the case of smaller companies incorporated in England which are below the FTSE 350, at least two non-executive members of the Board of Directors should be independent in character and judgement, and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

The Board considers that Martina King, David Maloney, Thomas McGrath, Rick Senat and Peter Williams are all Independent Non-Executive Directors being independent of management and have no business relationship or other relationship which could interfere materially with the exercise of their judgement

David Maloney has been appointed as the Senior Independent Non-Executive Director and he, together with Peter Williams, is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer has failed to resolve or for which contact is inappropriate

The independent Non Executive Directors bring an objective view point and range of experience to the Company and ensure that no individual or group of individuals is able to dominate the Board's decision making. They play a key role in reviewing proposals and providing constructive challenge generally and in particular in respect of strategy. They also ensure that appropriate standards are being maintained. All the Non-Executive Directors have access to Independent legal advice subject to consulting with the Board and following the agreed procedure

The Company Secretary is responsible for advising and supporting the Chairman and the Board on Corporate Governance matters, ensuring Board procedures are followed and facilitating the good information flow within the Board and the Board appointed Committees

#### **Professional Development and Performance Evaluation**

Under the direction of the Chairman, the Board's responsibilities include facilitating induction and professional development. Any new Director receives a comprehensive, formal and tailored induction into the Company's operations. Appropriate training is provided to new Directors and is also available to other Directors as required

During the year, a performance evaluation was carried out in respect of the Board, the Audit, Remuneration and Nomination Committees and each individual Director including the Chairman. The process involved the completion of assessment questionnaires by each of the Directors and Committee Members. The results were then collated by the Company Secretary and a summary presented to the relevant Committee and the Board. The evaluation confirmed that overall the Board and Committee processes were working appropriately and the Directors including the Chairman were performing satisfactorily, however, there were a few matters identified where Directors felt that processes could be improved further in certain areas. As a consequence additional time has already been spent on, and more time in the future will be allocated to, particular strategic issues and succession planning below Board level

Although Cineworld Group plc is not a FTSE 350 company, the Board has decided that, with effect from the 2011 financial year, performance evaluations will be externally facilitated at least once every three years in accordance with Governance Code

#### **Board Committees**

In accordance with best practice, the Board has appointed a number of Committees, as set out below, to which certain Board functions have been delegated. Each of these Committees has formal written terms of reference which clearly define their responsibilities. The terms of reference of each of the Board's three Committees are available on the website or from the Company Secretary

#### **Audit Committee**

During the year, the Company's Audit Committee comprised three independent Non-Executive Directors (namely David Maloney, Rick Senat and Peter Williams). It met five times during the year. Both David Maloney and Peter Williams are considered by the Board to have recent and relevant financial experience. The Company considers that it complied with the Governance Code throughout the year as it recommends that the Audit Committee of a smaller company which is below the FTSE 350 should comprise of at least two members who should both be independent non-executive directors, and at least one member should have recent and relevant financial experience

The Audit Committee assists the Board in discharging its responsibility with regard to financial reporting, external and internal audits and controls, including

- Monitoring the financial reporting process,
- Reviewing the Company's annual financial statements,
- Reviewing and monitoring the extent of the non audit work undertaken by external auditors,
- Advising on the appointment of external auditors and,
- Reviewing the level of risk and the effectiveness of the Company's internal audit activities, internal controls and risk management systems

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and half-yearly reports remains with the Board

The Chairman, the Chief Executive Officer, the Chief Financial Officer, other senior executives, the internal auditors and the external auditors may be invited to attend meetings, but are not members. During the period, the main activities of the Audit Committee were

- Monitoring the financial reporting process and reviewing the half-year and annual financial statements with particular reference to accounting policies, together with significant estimates and financial reporting judgements and the disclosures made therein,
- Reviewing the management representations made to the external auditors and the Company's procedures to ensure all relevant information has been disclosed,
- Discussing any issues arising out of the interim review and full year audit with the external auditors (in the absence of management where appropriate),
- Reviewing the risk register and the measures implemented to mitigate the principal risks facing the Group,
- Monitoring and reviewing the effectiveness of the internal audit function and the Group's internal financial controls together with its broader internal controls and risk management systems,
- Considering the reports of Grant Thornton UK LLP review of specific areas of risk (following their appointment in November 2008 to help implement a three year internal audit plan and their subsequent retention to focus on specific areas of risk),
- Making recommendations to the Board with regard to continuing the appointment and remuneration of the external auditor, overseeing the Company's relations with the external auditor and monitoring the effectiveness of the audit process, and
- Reviewing its terms of reference and recommending changes to the Board

## Corporate Governance Statement

### continued

The Committee also considers on an ongoing basis the independence of the external auditors and has established policies to consider the appropriateness or otherwise of appointing the external auditors to perform non-audit services. In particular, under its terms of reference, all non-audit fee work needs to be approved by the Committee if the value of such work is likely to be greater than £30,000. As detailed on page 39 the external auditors are KPMG, who have provided certain non-audit services to the Company, principally in respect of advice on taxation and corporate finance matters. The Committee is satisfied that such work was best undertaken by KPMG and their objectivity has not been impaired by reason of this further work. The Committee also reviewed and continues to oversee the whistleblowing arrangements which enable employees to raise concerns about improprieties in financial reporting and other matters on a confidential basis.

#### Nomination Committee

The Company's Nomination Committee is comprised of three members, all of whom are independent Non Executive Directors (namely Thomas McGrath, David Maloney and Peter Williams) and it met twice during the financial year. The Company considers that it complies with the Governance Code, which provides that a majority of the members of the Nomination Committee should be independent non executive directors. Due to the importance that the Directors play in the success of the Group, the Chairman is invited to attend meetings, and does so, except when his own position is being discussed.

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition of the Board. It is responsible for evaluating the balance of skills, knowledge and experience on the Board, the size, structure and composition of the Board, retirements and appointments of additional and replacement Directors, the independence of Directors and makes appropriate recommendations to the Board on such matters. It is also responsible for ensuring that Directors have sufficient time to discharge their duties on appointment, and thereafter, with such matters being specifically addressed in the letters of appointment of the Non-Executive Directors.

#### Board Diversity

During the year, the Nomination Committee considered the recommendations made by Lord Davies to achieve business led solutions to the lack of female representatives on Boards. While the Committee considered gender, nationality and cultural diversity all to be important when reviewing the composition of the Board and possible new appointees, it believes that the single most important factor is to identify, recruit and retain the people it considered, on merit, to be the best candidates for each particular role. It is not currently in favour of setting specific targets for Board representation to be achieved by particular dates.

Following the resignation of the Chief Financial Officer in June 2011, a search for a replacement was undertaken in accordance with the above approach using an external search consultancy. Following interviews carried out by members of the Committee, the Chairman of the Company and the Chief Executive, the Committee recommended to the Board that Philip Bowcock should be appointed as the new Chief Financial Officer.

#### Remuneration Committee

During the year, the Company's Remuneration Committee comprised three Non-Executive Directors (namely Martina King, David Maloney and Peter Williams) and met three times during the year. The Company considers that it complied with the Governance Code which provides that the Remuneration Committee of a smaller company which is below the FTSE 350 should consist of at least two members who are both independent non-executive directors.

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors and monitoring and approving the remuneration of senior management below Board level.

The Remuneration Committee appointed Towers Watson as an external adviser in November 2008 and again took advice from them during the year. Towers Watson have no other connection with the Group except as the actuary to the pension schemes of Adelphi Carlton Limited, the Group's operating company in Ireland.

The Chief Executive Officer is consulted on the remuneration packages of the other senior executives and attends discussions by invitation except when his own position is being discussed. Given the essential part remuneration plays in the success of the Group, the Chairman is also invited to attend meetings of the Committee and does so except when his own remuneration is being considered. The Committee does not deal with the fees paid to the Non-Executive Directors. The report of the Remuneration Committee is set out on pages 45 to 50.

#### Re-election

Under the Company's Articles of Association, at each AGM each year one third of the Directors (or if their number is not three or a multiple of three, the nearest number to, but not less than one third) must retire by rotation and being eligible may stand for re-election. A Director must retire (and will be counted in the one third to retire) if he was last appointed or reappointed three years or more prior to the AGM or has served more than eight years as a Non-Executive Director (excluding as Chairman of the Board).

Although the Company is not a FTSE 350 company, all the Directors (and not just the one third required by the Articles) will be offering themselves for re-election at this year's AGM reflecting current best practice for larger companies under the Governance Code. Biographical details of all the Directors are set on page 34 and 35.

### Attendance at Meetings

The number of scheduled Board meetings and Committee meetings attended by each Director during the year was as follows

|                                   | Board<br>(including<br>strategy day) | Audit<br>Committee | Remuneration<br>Committee | Nomination<br>Committee |
|-----------------------------------|--------------------------------------|--------------------|---------------------------|-------------------------|
| <b>Number of meetings in year</b> | <b>7</b>                             | <b>5</b>           | <b>3</b>                  | <b>2</b>                |
|                                   | Attended                             | Attended           | Attended                  | Attended                |
| <b>Director</b>                   |                                      |                    |                           |                         |
| Anthony Bloom                     | 7                                    | 5*                 | 2*                        | 2*                      |
| Richard Jones                     | 3†                                   | n/a                | n/a                       | n/a                     |
| Martina King                      | 7                                    | n/a                | 3                         | n/a                     |
| David Maloney                     | 7                                    | 5*                 | 3                         | 2                       |
| Thomas McGrath                    | 7                                    | n/a                | n/a                       | 2                       |
| Rick Senat                        | 6                                    | 4                  | n/a                       | n/a                     |
| Matthew Tooth                     | 3‡                                   | n/a                | n/a                       | n/a                     |
| Stephen Wiener                    | 7                                    | n/a                | n/a                       | n/a                     |
| Peter Williams                    | 7                                    | 5                  | 3                         | 2                       |

\* Chairman of Board/Committee

† Anthony Bloom attended these meetings by invitation

‡ Richard Jones and Matthew Tooth resigned as Directors on 10 June 2011 and 11 May 2011 respectively. Between 1 January 2011 and 10 June 2011 there were three Board meetings

### Investor Relations

The Directors value contact with the Company's institutional and private investors. An Annual Report and Accounts is sent to all new shareholders and is otherwise made available to shareholders via the Company's website unless they have specifically requested that a copy is sent to them. Presentations are given to shareholders and analysts following the announcement of the interim results and the preliminary announcement of the full year results. Interim management statements are issued twice each year in respect of the first and third quarters and, in addition, trading updates are issued in early January and late June immediately before the Company enters into its close period leading up to the interim and preliminary results announcement.

Separate announcements of all material events are made as necessary. In addition to the Chief Executive Officer and Chief Financial Officer, who have regular contact with investors over such matters, Anthony Bloom (the Chairman), David Maloney (Senior Independent Director), and Peter Williams (an Independent Non-Executive Director) are available to meet with shareholders as, and when, required. Additionally, the Chief Executive Officer and Chief Financial Officer provide focal points for shareholders' enquiries and dialogue throughout the year. The whole Board is kept up to date at its regular meetings with the views of shareholders and analysts and it receives reports on changes in the Company's share register and market movements.

The Board uses the AGM to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the Chairmen of the Audit Committee, Remuneration Committee and Nomination Committee are available at the AGM to answer questions, and that all Directors attend.

The Company's website ([www.cineworldplc.com](http://www.cineworldplc.com)) provides an overview of the business. Major Group announcements are available on the website and new announcements are published without delay. All major announcements are approved by the Chairman and Executive Directors and circulated to the Board prior to issue. The Group also has internal and external checks to guard against unauthorised release of information.

### Internal Controls

The Board is responsible for maintaining an effective system of internal control that provides reasonable assurance that the Group's assets are safeguarded and that material financial errors and irregularities are prevented or detected with a minimum of delay.

The Group has in place internal control and risk management arrangements in relation to the Group's financial reporting processes and the preparation of its consolidated accounts. The arrangements include policies and procedures to ensure the maintenance of records which accurately and fairly reflect transactions to enable the preparation of financial statements in accordance with International Financial Reporting Standards or UK Generally Accepted Accounting Principles, as appropriate, with reasonable assurance and that require reported data to be reviewed and reconciled, with appropriate monitoring internally and by the Audit Committee.

More generally the Directors are committed to implementing measures to ensure that there is an ongoing review of the effectiveness of the internal control system with procedures to capture and evaluate failings and weaknesses, and in the case of those categorised by the Board as significant, that procedures exist to ensure that necessary action is taken to remedy the failings.

The Board is satisfied that throughout the financial period in question such measures were in place throughout the Group and the Company fully complies with the requirements of the Governance Code in this regard.

The system of internal control manages rather than eliminates the risks to business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material loss or misstatement of the financial statements.

## Corporate Governance Statement

### continued

Reflecting the Board's commitment to the ongoing development of the Group's system of risk management and internal control, Grant Thornton UK LLP, continued its appointment during the year, undertaking a number of specific reviews and reporting back to the Committee in the process making recommendations to help strengthen the risk management framework and internal control processes within the Group

Under the Audit Committee's terms of reference, it is tasked with reviewing the Company's financial reporting and internal control procedures and to make recommendations to the Board in this area. Key elements of the Group's risk management and internal control framework during 2011 were

- The day-to-day involvement of executive members of the Board in all aspects of the business and their attendance at regular meetings with senior management, at which operational and financial performance and operational matters was reviewed. Financial performance was monitored and action taken through regular reporting to the Executive Directors and monthly reporting to the Board against annual budgets approved by the Board
- Small groups of members of the senior management team meeting to review current and future risks in their particular areas of responsibility and expertise and to confirm the current measures in place to mitigate those risks
- An established organisational structure with clear lines of responsibility and reporting requirements. Capital investment and all revenue expenditure being regulated by a budgetary process and authorisation levels (manual and systems), with appraisals and post investment and period end reviews. Policy manuals setting out agreed standards and control procedures which include human resources related policies, information technology and health and safety
- An established internal audit function headed by an experienced internal auditor who had access to all areas of the cinema operations and prepared reports which were available to the Board and reported regularly to senior management and the Audit Committee
- Reports from Grant Thornton following their reviews of specific areas of risk as part of their ongoing assistance with the Internal Audit programme
- An independent external consultant conducting annual health and safety audits and reporting to the Group Health and Safety Committee (comprising of members of the senior management team meeting on a quarterly basis) and the Audit Committee
- The external auditors providing a supplementary, independent and autonomous perspective on those areas of the internal control system, which they assess in the course of their work. Their findings were reported to both the Audit Committee and the Board
- The Audit Committee reviewing the risk register, receiving reports on risk management and internal controls and monitoring the overall position and reviewing actions taken to address areas of weakness
- Each cinema having its own risk register prepared by undertaking an annual review of all risks affecting the cinema and detailing the control measures in place to mitigate those risks with key controls being reviewed by the internal audit function
- Business Continuity Plans for Head Office and each cinema being in place with components of the Head Office plan being reviewed and tested during the year
- A specialist company conducting quarterly penetration testing on the Group's IT networks
- A whistle blowing policy being in place ensuring that members of staff who were concerned about impropriety, financial or otherwise, could raise such matters without fear of victimisation or reprisal

#### Accountability, Audit and Financial

The Board is responsible for the preparation of the Annual Report and ensuring that the financial statements present a balanced assessment of the Group's financial position and prospects. Responsibility is administered primarily by the Audit Committee, of which the terms of reference are referred to above

A comprehensive budgeting system allows managers to submit detailed budgets which are reviewed and amended by the Executive Directors prior to submission to the Board for approval

#### Human Resources

The Group endeavours to appoint employees with appropriate skills, knowledge and experience for the roles they undertake. The Group has a range of policies which are aimed at retaining and providing incentives for key staff. Objectives are set for departments and employees that are derived from the Group's business objectives. The Group has a clear and well-understood organisational structure and each employee knows his or her line of accountability

#### Insurance

It is not practical or possible to insure against every risk to the fullest extent. The Group has in place an insurance programme to help protect it against certain insurable risks. The portfolio of insurance policies is kept under regular review with its insurance broker to ensure that the policies are appropriate to the Group's activities and exposures in light of cost, and the likelihood and magnitude of the risks involved

By order of the Board

**Anthony Bloom**  
Chairman  
8 March 2012

## Directors' Remuneration Report

### Introduction

I am pleased to present the Remuneration Committee's Report on Directors' remuneration for 2011. It was another successful year for Cineworld, with the Group delivering healthy growth in revenues and profits enabling a 4.8% increase in the full year dividend to be made and executive remuneration decisions were made in this context.

This report has been prepared by the Remuneration Committee and has been approved by the Board. It complies with Regulation 11 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and also with the UK Corporate Governance Code. The report will be put to shareholders for approval at the forthcoming Annual General Meeting.

The Companies Act 2006 (the "Act") requires the Auditors to report on certain parts of the report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Act. The report has therefore been divided into separate sections for audited and unaudited information.

### UNAUDITED INFORMATION

#### Remuneration Committee

The Company's Remuneration Committee currently comprises three Non-Executive Directors (namely Martina King, David Maloney and Peter Williams) who are all deemed to be independent. The Chairman of the Remuneration Committee is Peter Williams and the Secretary of the Committee is the Company Secretary. The Committee met three times in the financial period. The Committee's terms of reference are available for inspection on the Company's website ([www.cineworldplc.com](http://www.cineworldplc.com)) or on request from the Company Secretary.

The Remuneration Committee monitors and recommends to the Board for approval the structure and level of remuneration for each member of the Senior Management Team ("SMT") including the Executive Directors. The Committee received advice from Towers Watson during the year in relation to the Company's remuneration policy and its implementation. Towers Watson was appointed by the Remuneration Committee in November 2008. Towers Watson has no other connections with the Company except as the actuary to the pension scheme of Adelphi-Carlton Limited, the Group's operating company in Ireland. The Committee also received assistance from the Chairman of the Company, the Chief Executive Officer, the Chief Financial Officer, the Head of Human Resources and the Company Secretary, although they do not participate in discussions relating to the setting of their own remuneration.

The objective of the Group's remuneration policy is that all employees, including Executive Directors, should receive appropriate remuneration for their performance, responsibility, skills and experience. Remuneration packages are designed to enable the Group to attract and retain key employees by ensuring they are remunerated appropriately and competitively and that they are motivated to achieve the highest level of Group performance in line with the best interests of shareholders. To determine the elements and level of remuneration appropriate for each member of the SMT, the Committee considers benchmark remuneration data for selected comparable companies and seeks to ensure that fixed costs are no higher than market median, that an appropriately significant proportion of potential pay is performance related and that total pay opportunity is consistent with appropriate superior levels of pay for superior performance. Currently, the expected value of the performance related element of the Executive Directors' packages is around 55% of total remuneration at the target performance level. The arrangements are reviewed on a regular basis.

### Remuneration Package

Executive Directors' remuneration currently comprises an annual salary, a performance-related bonus, a share-based long-term incentive scheme, pension contributions and other benefits. Following a review in late 2009, the Remuneration Committee decided that, with effect from the 2011 financial year, bonus arrangements should be more heavily weighted towards longer term performance. From 2011 and thereafter, it was planned to increase awards for Executive Directors under the Long-term Incentive Plan ("LTIP") from a level equivalent to 50% in value of annual salary to 75% and then to 100%. With effect from the 2013 financial year and thereafter, the Remuneration Committee intends to reduce the level of the Performance Related Bonus which pays out for target performance, reflecting the potential greater benefit yielded by the higher LTIP awards starting to vest. This approach has been taken to ensure a smooth transition from the previous to the new arrangements.

### Annual Salary

Salaries are reviewed annually by the Remuneration Committee. The Board approves the overall budget for employee salary increases and the Committee agrees the specific increases for the SMT. For members of the SMT below Board level, the Committee receives a recommendation from the Chief Executive Officer which it reviews and approves as appropriate. In determining appropriate salary levels for each Executive Director, the Committee considers both the nature and the status of the Company's operations and the responsibilities, skills, experience and performance of the Executive Director. The Committee compares the Group's remuneration packages for its Executive Directors and employees with those for directors and employees of similar seniority in companies whose activities are comparable with the Group. It also takes into account the progress made by the Group, contractual considerations and salary increases across the rest of the Group (which for the year were generally around 3%).

### Performance-Related Bonus

The Executive Directors and all other employees participate in a performance-related bonus scheme. The level of bonus is based primarily on overall Group performance in meeting its primary financial objectives in earnings before interest, tax, depreciation and amortisation ("EBITDA"). The Committee ensures that challenging and clearly-assessable targets are set for Executive Directors.

Details of bonuses paid to Executive Directors for the year to 29 December 2011 are included in the remuneration tables set out below. Bonuses are awarded wholly in cash. For the year ended 29 December 2011, Stephen Wiener was eligible for a bonus payable of up to 100% of salary on achievement by the Group of 95% to 120% of full year budgeted EBITDA. Richard Jones was eligible for a bonus payable of up to 95% of salary on achievement by the Group of 95% to 120% of full year budgeted EBITDA (pro-rated by time up to his leaving date). Bonuses are not payable unless a threshold of 95% of full year budgeted EBITDA is achieved.

For the 2012 financial year, the Remuneration Committee has decided that a portion of bonus should be measured against personal performance as measured by agreed strategic objectives. The level of bonus will be determined by a matrix of budgeted EBITDA and personal performance levels. No bonuses will be payable unless a threshold of 95% of full year budgeted EBITDA is achieved. For "on-target" performance, the arrangement will result in the same level of payment as the previous arrangements. Stephen Wiener is eligible for a maximum bonus opportunity of 100% of base salary and Philip Bowcock is eligible for a maximum

## Directors' Remuneration Report

### continued

bonus opportunity of 95% of salary. The maximum bonus level will only be payable if both 120% of full year budgeted EBITDA and exceptional performance against personal objectives is achieved.

#### The Cineworld Group Performance Share Plan ("PSP")

The PSP was implemented at IPO and the first grant of awards was made in March 2008 after the announcement of the Company's results for the financial year ended 27 December 2007. Further awards have been made in March each year after the announcement of the Company's results for the preceding financial year. Only the Executive Directors and members of the SMT, decided at the discretion of the Remuneration Committee, participated in each grant. Details of the awards to the Executive Directors are set out below. Non-Executive Directors, including the Chairman, are not eligible to participate in the PSP.

Under the PSP, either awards of conditional shares are made that vest after three years or nil cost options over shares are granted which become exercisable after three years. In both cases, awards are subject to continued employment and the achievement of specified performance conditions ("Awards"). The performance conditions applying to all Awards to the Executive Directors in each year are that:

- 30% of the Awards will vest if the average annual growth in earnings per share ("EPS")\* (calculated by comparing the EPS for the last financial year prior to the date of grant and the EPS for the financial year ending three years later) is not less than 3.2%.
- 100% of the Awards will vest if the average annual growth in EPS (calculated by comparing the EPS for the last financial year prior to the date of grant and the EPS for the financial year ending three years later) is at least 9.2%.
- Where the average annual growth in EPS (calculated by comparing the EPS for the last financial year prior to the date of grant and the EPS for the financial year ending three years later) is between the two limits above, the Awards shall vest on a straight-line basis between 30% and 100%.
- EPS for the 2008 grant is defined as the normalised undiluted earnings per share excluding any deferred tax charge relating to tax assets in existence on listing and exceptional items and for subsequent grants is defined as the adjusted pro forma diluted earnings per share as calculated in Note 5 to the financial statements.

Total shareholder return has been considered as an alternative or additional performance measure, but difficulties in identifying appropriate comparator companies has resulted in the Committee deciding to use EPS as the sole performance measure. The Remuneration Committee reviews the operation of the PSP each year and the performance conditions for each grant to ensure they are appropriate for the Company and the prevailing internal and external expectations. The conditions may be varied in exceptional circumstances following the grant of an award so as to achieve their original purpose, but not so as to make their achievement any more or less difficult to satisfy.

The maximum value of shares subject to an award to an individual in any financial year is 100% of annual base salary as at the award date, unless the Remuneration Committee decides that exceptional circumstances exist in relation to the recruitment or retention of an employee, in which case the limit is 150% of annual base salary. On vesting, participants will also receive additional shares or a cash sum equivalent to the dividends that would have been paid on the vested shares in respect of dividend record dates occurring between grant and vesting.

#### The Cineworld Group Sharesave Scheme (the "Sharesave Scheme")

Executive Directors are eligible to participate in the Sharesave Scheme, which is an HM Revenue and Customs approved scheme open to all employees of nominated companies who have a minimum of three months' service at the date of invitation. Under the Sharesave Scheme, employees are eligible to acquire shares in the Company at a discount of up to 20% of the market value at grant if they agree to enter into a savings contract for a three-year period. Consistent with the relevant legislation, no performance conditions apply. No options were granted under the Sharesave Scheme during the year as no fresh invitation was made to eligible participants. The second Sharesave grant made in 2008 did vest in the period and participants were able to exercise their options. Details of the interests of the Executive Directors in the Sharesave Scheme are set out below.

#### The Cineworld Group Company Share Option Plan (the "CSOP")

The CSOP was approved by shareholders at the Annual General Meeting ("AGM") in 2010 and the first grant of awards was made in July 2010. A further set of awards were made in March 2011 following the announcement of the Company's results for the preceding financial year. Only the Executive Directors and members of the SMT, decided at the discretion of the Remuneration Committee, participated in the grants which consisted solely of HM Revenue and Customs approved options. In 2010 and 2011, each participant in the PSP had a proportional part of their PSP award replaced by a HM Revenue and Customs approved share option granted under the CSOP. Details of the awards to the Executive Directors under the CSOP are set out below which included identical performance conditions to the 2011 PSP awards. No unapproved share options under the CSOP have been granted. Non-Executive Directors, including the Chairman, are not eligible to participate in the CSOP.

#### Satisfaction of Share Options and Awards

Awards under the PSP, the Sharesave Scheme and the CSOP can be satisfied using either new issue shares or shares purchased in the market in conjunction with the Cineworld Group Employee Benefit Trust (the "Trust"), established by the Company on 24 March 2006 with independent trustees based in Jersey. However, if new issue shares are used, the following limits will apply:

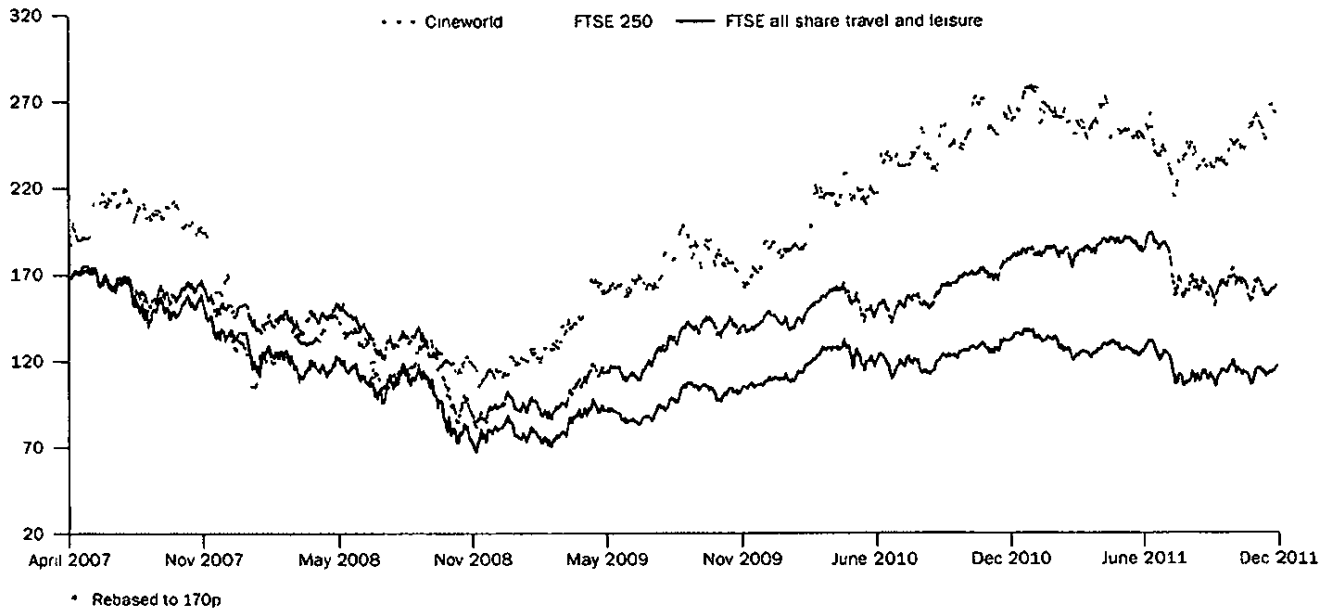
- In any ten year period, the number of shares which may be issued under the PSP and under any other executive share or option scheme established by the Company may not exceed 5% of the issued ordinary share capital of the Company from time to time.
- In any ten year period, the number of shares which may be issued under the PSP and under any employees' share or option scheme established by the Company may not exceed 10% of the issued ordinary share capital of the Company from time to time.

#### Share Retention Policy

A share retention policy exists under which each Executive Director is expected to build up over a period of time and then retain a holding in shares equal to 100% of his salary. As part of the process, he is expected to retain 50% of any shares he acquires under the Performance Share Plan or on the exercise of options, after allowing for the sale of shares to pay tax, until such time as he has built up such a holding.

### Performance Graph

The graph below compares the Company's total shareholder return performance against the FTSE 250 and FTSE All Share Travel and Leisure Indices since IPO in April 2007\*. The Remuneration Committee believes these indices to be the most appropriate comparators as the Group looks to benchmark itself against smaller companies within the FTSE 250 and is a member of the FTSE All Share Travel and Leisure sector



The Shares of the Company commenced trading on the London Stock Exchange on 26 April 2007 at an offer price of 170p per share. Admission became effective and unconditional dealings in the shares commenced on the London Stock Exchange on 2 May 2007.

The mid market closing price on 29 December 2011 was 201p and the range during the period 31 December 2010 to 29 December 2011 was 228.75p to 169.5p.

### Pension Contributions

All employees, including Executive Directors, are invited to participate in a Group Personal Pension Plan which is a money purchase plan. All the major schemes operated by the Group are money purchase in nature and have no defined benefits. Two defined benefit schemes are operated in the UK and in Ireland and both have been closed to new members for a number of years. Details of these schemes are shown in Note 18 of the financial statements. The Group has no obligation to the pension scheme beyond the payment of contributions. The Company contributions for Chief Executive Officer are 20% of salary. The Chief Financial Officer has elected not to participate in the Group Personal Pension Plan and receives a pension allowance equivalent to 20% of salary. Bonuses are not pensionable.

### Other Benefits

Benefits in kind for Executive Directors include the provision of a company car or car allowance, life insurance, permanent health insurance, private medical cover and, for the Chief Executive Officer only, a driver.

### Executive Directors' Contracts

The Group's policy in entering into service contracts with Executive Directors is to enable the recruitment of high quality executives and to obtain protection from their sudden departure, whether or not to competitor companies. In addition, service contracts are an important element in maintaining maximum protection for the Group's intellectual property rights and other commercially sensitive information.

The details of the Executive Directors' contracts are summarised in the table below.

| Director       | Date of contract | Notice period |
|----------------|------------------|---------------|
| Stephen Wiener | 23 April 2007    | 12 months     |
| Philip Bowcock | 16 November 2011 | 6 months      |

Both Executive Directors are, under the terms of their service contracts, entitled to an annual review of their base salary each year. In the case of the Chief Executive Officer, a minimum increase in line with the Retail Prices Index must be made.

The Company may, in lieu of giving notice, terminate an Executive Director's service contract by making a payment equivalent to 95% (in the case of the Chief Executive Officer) and 100% (in the case of the Chief Financial Officer) of base salary and contractual benefits for the notice period. In this event the Director would not be entitled to any bonus for his notice period, but would be eligible for a pro rata bonus for the period up to the date of the termination of his contract.

The Company's policy is to endeavour to minimise any payment on early termination by insisting on mitigation of any loss where possible.

### Non-Executive Directors' Letters of Appointment

The Non-Executive Directors, including the Chairman, do not have service contracts with the Company. The terms and conditions of their appointment as Non-Executive Directors are set out in letters of appointment, which are subject to the provisions of the Articles of Association.

## Directors' Remuneration Report

### continued

Non-Executive Directors receive fees for services as members of the Board and its Committees. The level of fees is determined by the Board after taking into account appropriate advice (except in the case of the Chairman whose level of fee is determined by the Remuneration Committee), and no Director participates in discussions relating to the setting of his or her own remuneration. Non-Executive Directors do not participate in the Group's share incentives or otherwise receive performance-related pay. Where a Non-Executive Director does not serve until the end of his term, the policy is to pay the fees due pro rata to the date of cessation.

The appointment of each Non-Executive Director is terminable on the notice period stated below unless their appointment is terminated by a resolution of the shareholders in general meeting or if they fail to be re-elected by shareholders in general meeting in which case no notice is necessary.

Their appointments were made as follows:

| Director       | Date of appointment | Notice period |
|----------------|---------------------|---------------|
| Anthony Bloom  | 7 October 2004      | 1 month       |
| Martina King   | 2 July 2010         | 1 month       |
| David Maloney  | 22 May 2006         | 1 month       |
| Thomas McGrath | 16 May 2005         | 1 month       |
| Rick Senat     | 2 July 2010         | 1 month       |
| Peter Williams | 22 May 2006         | 1 month       |

#### AUDITED INFORMATION

##### Aggregated Directors' Remuneration

The total amounts for Directors' remuneration were as follows:

##### Emoluments

###### (i) Executive

| Name of Director | 2011<br>Fees/Basic<br>salary<br>£'000 | 2010<br>Fees/Basic<br>salary<br>£'000 | 2011<br>Performance<br>bonus<br>£'000 | 2010<br>Performance<br>bonus<br>£'000 | 2011<br>Benefits<br>£'000* | 2010<br>Benefits<br>£'000 | 2011<br>Other<br>Payments<br>£'000 | 2010<br>Other<br>Payments<br>£'000 | 2011<br>Total<br>£'000 | 2010<br>Total<br>£'000 | 2011<br>Company<br>contributions<br>to money<br>purchase<br>pension<br>schemes<br>£'000 | 2010<br>Company<br>contributions<br>to money<br>purchase<br>pension<br>schemes<br>£'000 | 2011<br>Total<br>including<br>contribution<br>to money<br>purchase<br>pension<br>scheme<br>£'000 | 2010<br>Total<br>including<br>contribution<br>to money<br>purchase<br>pension<br>scheme<br>£'000 |
|------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|----------------------------|---------------------------|------------------------------------|------------------------------------|------------------------|------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| Stephen Wiener   | 441*                                  | 419                                   | 300                                   | 343                                   | 34                         | 31                        | —                                  | —                                  | 775                    | 793                    | 88                                                                                      | 84                                                                                      | 863                                                                                              | 877                                                                                              |
| Richard Jones†   | 117                                   | 246                                   | 73††                                  | 189                                   | 8                          | 16                        | 342                                | —                                  | 540                    | 451                    | 23                                                                                      | 49                                                                                      | 563                                                                                              | 500                                                                                              |
| Philip Bowcock** | 21                                    | —                                     | —                                     | —                                     | 2                          | —                         | —                                  | —                                  | 23                     | —                      | 4                                                                                       | —                                                                                       | 27                                                                                               | —                                                                                                |
|                  | 579                                   | 665                                   | 373                                   | 532                                   | 44                         | 47                        | 342                                | —                                  | 1,338                  | 1,244                  | 115                                                                                     | 133                                                                                     | 1,453                                                                                            | 1,377                                                                                            |

\* With effect from 1 July 2011, Stephen Wiener's salary was increased by 6.4%.

† Other benefits include a company car or car allowance, life assurance, permanent health insurance, private medical cover and, for Stephen Wiener only, a driver.

† Richard Jones left the Company on 17 June 2011.

†† Richard Jones received an annual bonus payment for 2011, but only for the period up to his leaving date of 17 June 2011 and not for the full year.

\*\* Richard Jones was paid up to his leaving date on 17 June 2011. In accordance with his contract, on leaving, he received a one-off payment of £258,000 principally representing 95% of his salary for his notice period and a one-off pension contribution of £50,000 was made on his behalf. He also retained the use of his company car and petrol card for the notice period valued at £11,000. In addition, he received a non-contractual payment of £23,000.

^^ Philip Bowcock joined the Company on 1 December 2011.

###### (ii) Non-Executive

| Name of Director | 2011<br>Fees/Basic<br>salary<br>£'000 | 2011<br>Reimbursement<br>Of Travelling<br>Expenses<br>£'000 | 2011<br>Total<br>£'000 | 2010<br>Fees/Basic<br>salary<br>£'000 | 2010<br>Reimbursement<br>Of Travelling<br>Expenses<br>£'000 | 2010<br>Total<br>£'000 |
|------------------|---------------------------------------|-------------------------------------------------------------|------------------------|---------------------------------------|-------------------------------------------------------------|------------------------|
| Anthony Bloom    | 100                                   | —                                                           | 100                    | 100                                   | —                                                           | 100                    |
| Martina King     | 38                                    | —                                                           | 38                     | 19                                    | —                                                           | 19                     |
| David Maloney    | 53                                    | 1                                                           | 54                     | 51                                    | 1                                                           | 52                     |
| Thomas McGrath*  | 38                                    | 46                                                          | 84                     | 38                                    | 8                                                           | 46                     |
| Alan Roux**      | —                                     | —                                                           | —                      | 29                                    | —                                                           | 29                     |
| Rick Senat       | 38                                    | —                                                           | 38                     | 19                                    | —                                                           | 19                     |
| Matthew Tooth**  | 12                                    | —                                                           | 12                     | 33                                    | —                                                           | 33                     |
| Peter Williams   | 53                                    | —                                                           | 53                     | 51                                    | 1                                                           | 52                     |
|                  | 332                                   | 47                                                          | 379                    | 340                                   | 10                                                          | 350                    |

\* Prior to 6 January 2011, Thomas McGrath's travel costs from the United States to attend the Cineworld Board meetings, including related subsistence in the UK, were covered by the tax relief provision under section 373 ITCPA 2003 for non-UK domiciled employees up until the expiry of the 5-year relief period in January 2011. There is an equivalent provision for such costs under the Social Security (contributions) Regulations 2001, Schedule 3S, Part VIII, which has also been assumed.

\*\* Alan Roux and Matthew Tooth were originally appointed by the Blackstone Group and their respective Directors' fees were payable to the Blackstone Group. Following the sale by the Blackstone Group of its shareholding in the Company on 18 November 2010, Alan Roux stepped down from the Board, however, Matthew Tooth remained a Director in an independent capacity, although his Director's fees continued to be paid to the Blackstone Group. He subsequently resigned as a Director on 11 May 2011. No compensation was paid in respect of his departure.

There was no increase in the fees paid to the Chairman or the Non Executive Directors during the year. The basic fee for a Non-Executive Director was £33,000 p a. An additional fee of £5,000 p a is paid for being a member of a particular committee. A further additional fee of £5,000 p a is paid to each of the Chairman of the Audit and Remuneration Committees. The Non-Executive Directors do not receive any share options, bonuses or other performance-related payments nor do they receive any pension entitlement or other benefits.

#### Directors' Share and Share Option Scheme Interests

Details of share options of those Directors who served during the period are as follows:

##### (a) Cineworld Group Sharesave Scheme

| Name of Director | At<br>31 Dec<br>2010 | Granted<br>during<br>year | Exercised<br>during<br>year | Lapsed<br>during<br>year | At<br>29 Dec<br>2011 | Exercise<br>price | Market<br>price at<br>exercise <sup>^</sup> | Exercise period   |
|------------------|----------------------|---------------------------|-----------------------------|--------------------------|----------------------|-------------------|---------------------------------------------|-------------------|
| Stephen Wiener   | 10,322               | –                         | 10,322                      | –                        | –                    | £0.93             | £1.92                                       | 01/12/11–31/05/12 |
| Richard Jones    | 10,322               | –                         | –                           | 10,322 <sup>*</sup>      | –                    | £0.93             | –                                           | 01/12/11–31/05/12 |

<sup>^</sup> The price on exercise is the mid market closing price on the day of exercise as the shares were retained.

<sup>\*</sup> Richard Jones left the Company on 17 June 2011. In accordance with the rules of the Sharesave Scheme, his option lapsed on 17 June 2011.

##### (b) Cineworld Group Performance Share Plan

| Name of Director | At<br>31 Dec<br>2010 | Awarded<br>during<br>year | Vested<br>during<br>year | Lapsed<br>during<br>year | At<br>29 Dec<br>2011 | Exercise<br>price | Market<br>value at<br>date of<br>vesting <sup>**</sup> | Vesting date or exercise period <sup>†</sup> | Gain <sup>^^</sup> |
|------------------|----------------------|---------------------------|--------------------------|--------------------------|----------------------|-------------------|--------------------------------------------------------|----------------------------------------------|--------------------|
| Stephen Wiener   | 142,308 <sup>*</sup> | –                         | 142,308                  | –                        | –                    | £Nil              | £2.06                                                  | 20/03/11                                     | £334,993           |
|                  | 152,343 <sup>†</sup> | –                         | –                        | –                        | 152,343              | £Nil              | –                                                      | 26/03/12                                     |                    |
|                  | 109,774 <sup>§</sup> | –                         | –                        | –                        | 109,774              | £Nil              | –                                                      | 30/03/13–30/09/13                            |                    |
|                  | –                    | 153,205 <sup>*</sup>      | –                        | –                        | 153,205              | £Nil              | –                                                      | 29/03/14–29/09/14                            |                    |
| Richard Jones    | 82,692               | –                         | 82,692                   | –                        | –                    | £Nil              | £2.06                                                  | 20/03/11                                     | £192,453           |
|                  | 89,843 <sup>†</sup>  | –                         | –                        | 23,138 <sup>††</sup>     | 66,705               | £Nil              | –                                                      | 26/03/12                                     |                    |
|                  | 64,058 <sup>§</sup>  | –                         | –                        | 38,084 <sup>††</sup>     | 25,974               | £Nil              | –                                                      | 30/03/13–30/09/13                            |                    |
|                  | –                    | 89,606 <sup>*</sup>       | –                        | 83,059 <sup>**</sup>     | 6,547                | £Nil              | –                                                      | 29/03/14–29/09/14                            |                    |

<sup>\*</sup> Mid market closing price of a Cineworld Group plc share the day before grant was £1.30.

<sup>†</sup> Mid market closing price of a Cineworld Group plc share the day before grant was £1.28.

<sup>§</sup> Mid market closing price of a Cineworld Group plc share the day before grant was £1.85.

<sup>^</sup> Mid market closing price of a Cineworld Group plc share the day before grant was £2.08.

<sup>\*\*</sup> The price on exercise is the mid-market closing price on the day of exercise. In practice Stephen Wiener's award was settled totally by the issue of new shares, while Richard Jones' award was settled by the issue of 27,601 new shares and the balance by the payment of cash with each share being valued at £2.02 (being the mid market closing price the day before vesting) in accordance with the rules of the PSP.

<sup>†</sup> Subject to satisfaction of the relevant performance conditions (details of which are set on page 46). The awards vesting during the year vested in full. Awards made during the last two years were granted as nil cost options rather than as conditional awards of shares as in the previous two years.

<sup>^^</sup> The gain has been calculated using the mid market closing share price on the date of vesting unless settlement was in cash (see above) and includes payment of a cash sum equivalent to the dividends that would have been paid on the vested shares in respect of dividend record dates occurring between grant and vesting. These dividend equivalent payments amounted to £41,839 and £24,311 for Stephen Wiener and Richard Jones respectively.

<sup>††</sup> Richard Jones left the Company on 17 June 2011. In accordance with the rules of the PSP, his entitlement has been reduced to reflect the part of each three year performance period which he will not work.

## Directors' Remuneration Report

### continued

#### (c) Cineworld Group Company Share Option Plan

| Name of Director | At<br>31 Dec<br>2010 | Granted<br>during<br>year | Exercised<br>during<br>year | Lapsed<br>during<br>year | At<br>29 Dec<br>2011 | Exercise<br>price | Earliest<br>date of<br>exercise† | Expiry<br>date |
|------------------|----------------------|---------------------------|-----------------------------|--------------------------|----------------------|-------------------|----------------------------------|----------------|
| Stephen Wiener   | 5,050*               | –                         | –                           | –                        | 5,050                | £1 98             | 01/07/13                         | 30/06/20       |
|                  |                      | 4,801*                    | –                           | –                        | 4,801                | £2 08             | 29/03/14                         | 28/02/21       |
| Richard Jones    | 5,050*               | –                         | –                           | 5,050*                   | –                    | £1 98             | 01/07/13                         | 30/06/20       |
|                  |                      | 4,801*                    | –                           | 4,801*                   | –                    | £2 08             | 29/03/14                         | 28/02/21       |

\* HM Revenue and Customs approved share options

† Subject to satisfaction of the relevant performance conditions (details of which are set on page 46)

^ Richard Jones left the Company on 17 June 2011. In accordance with the rules of the CSOP, his entitlement lapsed if the options were not exercised within six months of leaving

By order of the Board

**Peter Williams**

Chairman of the Remuneration Committee

8 March 2012

## Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of our knowledge

- 1 the financial statements, prepared in accordance with the applicable set of accounting standards, 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 taken as a whole, and
- 2 the Chief Executive and Chief Financial Officers' Review together with the Risks and Uncertainties section, which are incorporated in the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

On behalf of the Board

**Philip Bowcock**  
Chief Financial Officer  
8 March 2012

## Independent Auditor's Report to the Members of Cineworld Group plc

We have audited the financial statements of Cineworld Group plc for the 52 week period ended 29 December 2011 set out on pages 53 to 91. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 51, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at <http://www.frc.org.uk/apb/scope/private.cfm>

### Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 29 December 2011 and of the Group's profit for the 52 week period then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the 52 week period then ended for which the financial statements are prepared is consistent with the financial statements, and
- the information given in the Corporate Governance Statement set out on pages 40 to 44 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

### Matters on which we are required to Report by Exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 39, in relation to going concern,
- the part of the Corporate Governance Statement on pages 40 to 44 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

**Mark Summerfield (Senior Statutory Auditor)**

**for and on behalf of KPMG Audit Plc, Statutory Auditor**

### Chartered Accountants

15 Canada Square  
London  
E14 5GL

8 March 2012

## Consolidated Statement of Comprehensive Income

for the Period Ended 29 December 2011

|                                                                                                                                                                                                                                                                               | Note | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------------------------------------------------------|------------------------------------------------------|
| <b>Revenue</b>                                                                                                                                                                                                                                                                | 2    | <b>348 0</b>                                         | 342 8                                                |
| Cost of sales                                                                                                                                                                                                                                                                 |      | (261.5)                                              | (259 7)                                              |
| <b>Gross profit</b>                                                                                                                                                                                                                                                           |      | <b>86 5</b>                                          | 83 1                                                 |
| Other operating income                                                                                                                                                                                                                                                        | 3    | 0 4                                                  | 0 6                                                  |
| Administrative expenses                                                                                                                                                                                                                                                       |      | (44.3)                                               | (46 6)                                               |
| <b>Operating profit</b>                                                                                                                                                                                                                                                       | 4    | <b>42 6</b>                                          | 37 1                                                 |
| Analysed between                                                                                                                                                                                                                                                              |      |                                                      |                                                      |
| Operating profit before depreciation, impairments, reversals of impairments and amortisation, onerous lease and other non-recurring or non-cash property charges, transaction and reorganisation costs, defined benefit pension scheme indexation gain, and refinancing costs |      | 63 3                                                 | 59 0                                                 |
| – Depreciation and amortisation                                                                                                                                                                                                                                               | 4    | (18 9)                                               | (17 2)                                               |
| – Onerous leases and other non-recurring or non-cash property charges                                                                                                                                                                                                         | 4    | 0 5                                                  | (1 3)                                                |
| – Impairments and reversals of impairments                                                                                                                                                                                                                                    | 4    | –                                                    | (3 2)                                                |
| – Transaction and reorganisation costs                                                                                                                                                                                                                                        | 4    | (3 9)                                                | (0 2)                                                |
| – Defined benefit pension scheme indexation gain                                                                                                                                                                                                                              | 18   | 1 7                                                  | –                                                    |
| – Refinancing costs                                                                                                                                                                                                                                                           |      | (0 1)                                                | –                                                    |
| Finance income                                                                                                                                                                                                                                                                | 7    | 1 6                                                  | 1 6                                                  |
| Finance expenses                                                                                                                                                                                                                                                              | 7    | (9 7)                                                | (8 2)                                                |
| Refinancing interest expense                                                                                                                                                                                                                                                  |      | (1 1)                                                | –                                                    |
| Total finance expense                                                                                                                                                                                                                                                         |      | (10 8)                                               | (8 2)                                                |
| <b>Net finance costs</b>                                                                                                                                                                                                                                                      |      | <b>(9 2)</b>                                         | (6 6)                                                |
| Share of loss of jointly controlled entities using equity accounting method, net of tax                                                                                                                                                                                       |      | –                                                    | (0 1)                                                |
| <b>Profit on ordinary activities before tax</b>                                                                                                                                                                                                                               |      | <b>33 4</b>                                          | 30 4                                                 |
| Tax charge on profit on ordinary activities                                                                                                                                                                                                                                   | 8    | (9 5)                                                | (9 4)                                                |
| <b>Profit for the period attributable to equity holders of the Company</b>                                                                                                                                                                                                    |      | <b>23 9</b>                                          | 21 0                                                 |
| <b>Other comprehensive income</b>                                                                                                                                                                                                                                             |      |                                                      |                                                      |
| Movement in fair value of cash flow hedge                                                                                                                                                                                                                                     |      | (0 6)                                                | 1 1                                                  |
| Foreign exchange translation gain/(loss)                                                                                                                                                                                                                                      |      | –                                                    | 0 2                                                  |
| Actuarial (losses)/gains on defined benefit pension schemes                                                                                                                                                                                                                   |      | (1 4)                                                | (0 7)                                                |
| Income tax on other comprehensive income                                                                                                                                                                                                                                      |      | 1 0                                                  | (0 1)                                                |
| <b>Other comprehensive income for the period, net of income tax</b>                                                                                                                                                                                                           |      | <b>(1 0)</b>                                         | 0 5                                                  |
| <b>Total comprehensive income for the period attributable to equity holders of the Company</b>                                                                                                                                                                                |      | <b>22 9</b>                                          | 21 5                                                 |
| Basic earnings per share                                                                                                                                                                                                                                                      | 5    | <b>16.8p</b>                                         | 14 8p                                                |
| Diluted earnings per share                                                                                                                                                                                                                                                    | 5    | <b>16.7p</b>                                         | 14 7p                                                |

The Notes on pages 57 to 91 are an integral part of these consolidated financial statements

## Consolidated Statement of Financial Position

### at 29 December 2011

|                                                                    | Note | 29 December 2011 |         | 30 December 2010 |         |
|--------------------------------------------------------------------|------|------------------|---------|------------------|---------|
|                                                                    |      | £m               | £m      | £m               | £m      |
| <b>Non-current assets</b>                                          |      |                  |         |                  |         |
| Property, plant and equipment                                      | 10   |                  | 124.3   |                  | 114.2   |
| Goodwill                                                           | 11   |                  | 217.1   |                  | 217.1   |
| Intangible assets                                                  | 11   |                  | 0.3     |                  | 0.4     |
| Investments in equity-accounted investee                           | 12   |                  | 0.8     |                  | 0.8     |
| Other receivables                                                  | 15   |                  | 1.4     |                  | 1.4     |
| Employee benefits                                                  | 18   |                  | 2.0     |                  | -       |
| Deferred tax assets                                                | 13   |                  | 12.0    |                  | 14.9    |
| <b>Total non-current assets</b>                                    |      |                  | 357.9   |                  | 348.8   |
| <b>Current assets</b>                                              |      |                  |         |                  |         |
| Inventories                                                        | 14   | 2.1              |         | 2.2              |         |
| Trade and other receivables                                        | 15   | 26.6             |         | 23.5             |         |
| Cash and cash equivalents                                          |      | 5.5              |         | 10.6             |         |
| <b>Total current assets</b>                                        |      |                  | 34.2    |                  | 36.3    |
| <b>Total assets</b>                                                |      |                  | 392.1   |                  | 385.1   |
| <b>Current liabilities</b>                                         |      |                  |         |                  |         |
| Interest-bearing loans, borrowings and other financial liabilities | 16   | (6.9)            |         | (11.7)           |         |
| Trade and other payables                                           | 17   | (52.9)           |         | (47.5)           |         |
| Current taxes payable                                              |      | (4.8)            |         | (7.9)            |         |
| Provisions                                                         | 19   | (2.3)            |         | (2.3)            |         |
| <b>Total current liabilities</b>                                   |      |                  | (66.9)  |                  | (69.4)  |
| <b>Non-current liabilities</b>                                     |      |                  |         |                  |         |
| Interest-bearing loans, borrowings and other financial liabilities | 16   | (100.0)          |         | (99.7)           |         |
| Other payables                                                     | 17   | (53.3)           |         | (52.5)           |         |
| Provisions                                                         | 19   | (9.3)            |         | (9.6)            |         |
| Deferred tax liabilities                                           | 13   | (2.3)            |         | (1.9)            |         |
| <b>Total non-current liabilities</b>                               |      |                  | (164.9) |                  | (163.7) |
| <b>Total liabilities</b>                                           |      |                  | (231.8) |                  | (233.1) |
| <b>Net assets</b>                                                  |      |                  | 160.3   |                  | 152.0   |
| <b>Equity attributable to equity holders of the Company</b>        |      |                  |         |                  |         |
| Share capital                                                      | 20   |                  | 1.4     |                  | 1.4     |
| Share premium                                                      |      |                  | 171.8   |                  | 171.4   |
| Translation reserves                                               | 20   |                  | 1.8     |                  | 1.8     |
| Hedging reserves                                                   | 20   |                  | (3.4)   |                  | (2.8)   |
| Retained deficit                                                   |      |                  | (11.3)  |                  | (19.8)  |
| <b>Total equity</b>                                                |      |                  | 160.3   |                  | 152.0   |

These financial statements were approved by the Board of Directors on 8 March 2012 and were signed on its behalf by

Stephen Wiener  
Director

Philip Bowcock  
Director

## Consolidated Statement of Changes in Equity

### for the Period Ended 29 December 2011

|                                                                     | Issued<br>capital<br>£m | Share<br>premium<br>£m | Translation<br>reserve<br>£m | Hedging<br>reserve<br>£m | Retained<br>deficit<br>£m | Total<br>£m  |
|---------------------------------------------------------------------|-------------------------|------------------------|------------------------------|--------------------------|---------------------------|--------------|
| <b>Balance at 31 December 2009</b>                                  | <b>1.4</b>              | <b>171.4</b>           | <b>1.6</b>                   | <b>(3.9)</b>             | <b>(26.0)</b>             | <b>144.5</b> |
| Profit for the period                                               | -                       | -                      | -                            | -                        | 21.0                      | 21.0         |
| <b>Other comprehensive income</b>                                   |                         |                        |                              |                          |                           |              |
| Movement in fair value of cash flow hedge                           | -                       | -                      | -                            | 1.1                      | -                         | 1.1          |
| Retranslation of foreign currency denominated subsidiaries          | -                       | -                      | 0.2                          | -                        | -                         | 0.2          |
| Actuarial loss on defined benefit scheme                            | -                       | -                      | -                            | -                        | (0.7)                     | (0.7)        |
| Tax recognised on income and expenses recognised directly in equity | -                       | -                      | -                            | -                        | (0.1)                     | (0.1)        |
| <b>Total other comprehensive income</b>                             | <b>-</b>                | <b>-</b>               | <b>0.2</b>                   | <b>1.1</b>               | <b>(0.8)</b>              | <b>0.5</b>   |
| <b>Contributions by and distributions to owners</b>                 |                         |                        |                              |                          |                           |              |
| Dividends paid in period                                            | -                       | -                      | -                            | -                        | (14.5)                    | (14.5)       |
| Movements due to share based compensation                           | -                       | -                      | -                            | -                        | 0.5                       | 0.5          |
| <b>Balance at 30 December 2010</b>                                  | <b>1.4</b>              | <b>171.4</b>           | <b>1.8</b>                   | <b>(2.8)</b>             | <b>(19.8)</b>             | <b>152.0</b> |
| Profit for the period                                               | -                       | -                      | -                            | -                        | 23.9                      | 23.9         |
| <b>Other comprehensive income</b>                                   |                         |                        |                              |                          |                           |              |
| Movement in fair value of cash flow hedge                           | -                       | -                      | -                            | (0.6)                    | -                         | (0.6)        |
| Retranslation of foreign currency denominated subsidiaries          | -                       | -                      | -                            | -                        | -                         | -            |
| Actuarial loss on defined benefit scheme                            | -                       | -                      | -                            | -                        | (1.4)                     | (1.4)        |
| Tax recognised on income and expenses recognised directly in equity | -                       | -                      | -                            | -                        | 1.0                       | 1.0          |
| <b>Total other comprehensive income</b>                             | <b>-</b>                | <b>-</b>               | <b>-</b>                     | <b>(0.6)</b>             | <b>(0.4)</b>              | <b>(1.0)</b> |
| <b>Contributions by and distributions to owners</b>                 |                         |                        |                              |                          |                           |              |
| Dividends paid in period                                            | -                       | -                      | -                            | -                        | (15.2)                    | (15.2)       |
| Movements due to share-based compensation                           | -                       | -                      | -                            | -                        | 0.2                       | 0.2          |
| Issue of shares                                                     | -                       | 0.4                    | -                            | -                        | -                         | 0.4          |
| <b>Balance at 29 December 2011</b>                                  | <b>1.4</b>              | <b>171.8</b>           | <b>1.8</b>                   | <b>(3.4)</b>             | <b>(11.3)</b>             | <b>160.3</b> |

## Consolidated Statement of Cash Flows

### for the Period Ended 29 December 2011

|                                                            | Note | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
|------------------------------------------------------------|------|------------------------------------------------------|------------------------------------------------------|
| <b>Cash flow from operating activities</b>                 |      |                                                      |                                                      |
| Profit for the period                                      |      | 23.9                                                 | 21.0                                                 |
| Adjustments for                                            |      |                                                      |                                                      |
| Financial income                                           | 7    | (1.6)                                                | (1.6)                                                |
| Financial expense                                          | 7    | 9.7                                                  | 8.2                                                  |
| Refinancing cost                                           |      | 1.1                                                  | -                                                    |
| Taxation                                                   | 8    | 9.5                                                  | 9.4                                                  |
| Share of loss of equity accounted investee                 |      | -                                                    | 0.1                                                  |
| <b>Operating profit</b>                                    |      | <b>42.6</b>                                          | <b>37.1</b>                                          |
| Depreciation and amortisation                              | 4    | 18.9                                                 | 17.2                                                 |
| Non-cash property charges                                  | 4    | (0.5)                                                | 1.3                                                  |
| Impairments and reversals of impairments                   |      | -                                                    | 3.2                                                  |
| Non cash pension gain following change in indexation       |      | (1.7)                                                | -                                                    |
| Surplus of pension contributions over current service cost | 18   | (1.6)                                                | (1.6)                                                |
| Increase in trade and other receivables                    |      | (3.0)                                                | (3.5)                                                |
| Decrease/(increase) in inventories                         |      | 0.2                                                  | (0.3)                                                |
| Increase/(decrease) in trade and other payables            |      | 2.9                                                  | (0.5)                                                |
| Decrease in provisions and employee benefit obligations    |      | (2.5)                                                | (2.2)                                                |
| <b>Cash generated from operations</b>                      |      | <b>55.3</b>                                          | <b>50.7</b>                                          |
| Tax paid                                                   |      | (8.3)                                                | (8.7)                                                |
| <b>Net cash flows from operating activities</b>            |      | <b>47.0</b>                                          | <b>42.0</b>                                          |
| <b>Cash flows from investing activities</b>                |      |                                                      |                                                      |
| Interest received                                          |      | 0.1                                                  | 0.1                                                  |
| Acquisition of property, plant and equipment               |      | (25.0)                                               | (20.3)                                               |
| <b>Net cash flows from investing activities</b>            |      | <b>(24.9)</b>                                        | <b>(20.2)</b>                                        |
| <b>Cash flows from financing activities</b>                |      |                                                      |                                                      |
| Proceeds from share issue                                  |      | 0.4                                                  | -                                                    |
| Dividends paid to shareholders                             |      | (15.2)                                               | (14.5)                                               |
| Interest paid                                              |      | (5.0)                                                | (4.0)                                                |
| Repayment of bank loans                                    |      | (5.0)                                                | (9.0)                                                |
| Payment of finance lease liabilities                       |      | (0.6)                                                | (0.6)                                                |
| Refinancing fees                                           |      | (1.8)                                                | -                                                    |
| <b>Net cash from financing activities</b>                  |      | <b>(27.2)</b>                                        | <b>(28.1)</b>                                        |
| Net increase in cash and cash equivalents                  |      | (5.1)                                                | (6.3)                                                |
| Cash and cash equivalents at start of period               |      | 10.6                                                 | 16.9                                                 |
| <b>Cash and cash equivalents at end of period</b>          |      | <b>5.5</b>                                           | <b>10.6</b>                                          |

## Notes to the Consolidated Financial Statements (Forming Part of the Financial Statements)

### 1 Accounting Policies

#### Basis of Preparation

Cneworld Group plc (the "Company") is a company incorporated in the UK

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 86 to 91.

The accounting policies set out below have been applied consistently to all periods presented in these Group financial statements, except as described on pages 62 and 63.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial period are set out below.

Information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Chief Executive and Chief Financial Officer's Review on pages 14 to 21 and the Risks and Uncertainties section on pages 24 and 25. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive and Chief Financial Officer's Review on pages 14 to 21. In addition Note 21 to the financial statements includes the group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

As highlighted in Note 16 to the financial statements, the Group meets its day to day working capital requirements through its bank facilities which consist of a five year facility of £170m, which comprises of a £70m term loan and £100m revolving facility. As at the period end, £65m of the term loan plus £32m of the revolving facility were drawn down. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's products, and (b) the availability of bank finance in the foreseeable future.

The current bank facility is subject to two covenants: the ratio of EBITDA to net debt and the ratio of EBITDAR (pre-rent EBITDA) to net finance charges. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility, including compliance with the bank facility covenants.

#### Measurement Convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as fair value through the income statement or as available-for sale.

The financial information of subsidiaries is included in the consolidated financial information from the date that control commences until the date that control ceases.

#### Basis of Consolidation

##### Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

##### Jointly Controlled Entities (Equity Accounted Investees)

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring the venturers' unanimous consent for strategic financial and operating decisions. Jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total recognised income and expense and equity movements of equity accounted investees, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

##### Transactions Eliminated on Consolidation

Intra Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

## Notes to the Consolidated Financial Statements continued

### (Forming Part of the Financial Statements)

#### 1 Accounting Policies continued

##### Use of non-GAAP profit and loss measures

The Group believes that along with operating profit, the following measures

- EBITDA
- Adjusted earnings
- Net debt

provide additional guidance to the statutory measures of the performance of the business during the financial period

EBITDA comprises of earnings before interest, tax, depreciation and amortisation, onerous lease and other non recurring or non-cash property charges, transaction and reorganisation costs, defined benefit scheme indexation gain and refinancing costs

Adjusted earnings comprises profit after tax adjusted for certain non-recurring and non cash items as set out in Note 5

Net debt represents net borrowings including finance leases and financial liabilities offset by cash

##### Foreign Currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations after 23 August 2004 (the date of incorporation) are taken directly to the translation reserve. They are released into the income statement upon disposal.

##### Derivative Financial Instruments and Hedging

##### Cash Flow Hedges and Interest Swap Policy

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement except where derivatives qualify for hedge accounting when recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the statement of comprehensive income.

For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the statement of comprehensive income immediately.

##### Non-Derivative Financial Instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, interest bearing borrowings, and trade and other payables.

##### Trade and Other Receivables

Trade and other receivables were initially measured on the basis of their fair value. Subsequently they are carried at amortised cost using the effective interest method less any impairment losses. A bad debt allowance for receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

## 1 Accounting Policies continued

### Trade and Other Payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

### Interest-Bearing Borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Other leases are operating leases. These leased assets are not recognised in the Group's balance sheet.

Depreciation is charged to the statement of comprehensive income to write assets down to their residual values on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

|                         |                                                             |                                      |
|-------------------------|-------------------------------------------------------------|--------------------------------------|
| • Land and buildings    | Short leasehold properties including leasehold improvements | 30 years or life of lease if shorter |
| • Plant and machinery   |                                                             | 3 to 10 years                        |
| • Fixtures and fittings |                                                             | 4 to 10 years                        |

No depreciation is provided on assets held for sale or on assets in the course of construction.

Depreciation methods, residual values and the useful lives of all assets are reassessed annually.

In respect of borrowing costs relating to qualifying assets, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of that asset. The Group has capitalised borrowing costs with respect to the construction of new sites.

### Business Combinations

In 2009 the Group early adopted IFRS 3 Business Combinations (2008) in accounting for business combinations.

For acquisitions on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in Income Statement. Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combinations are expensed as incurred. See Note 9 for the application of the new policy to the business combination that occurred during the period.

There were no acquisitions in the prior period.

### Intangible Assets and Goodwill

Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

## Notes to the Consolidated Financial Statements continued

### (Forming Part of the Financial Statements)

#### 1 Accounting Policies continued

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Brands – 10 years

#### Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the First-In, First-Out ("FIFO") principle. Cost comprises expenditure incurred in acquiring the inventories and bringing them to their existing location and condition, and net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling costs.

#### Impairment

The carrying amounts of the Group's assets other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have an indefinite useful economic life, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

#### Calculation of Recoverable Amount

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### Reversals of Impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment is reversed when there is an indication that the impairment loss may no longer exist as a result of a change in the estimates used to determine the recoverable amount, including a change in fair value less costs to sell.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### Employee Benefits

##### Defined Contribution Pension Plans

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

##### Defined Benefit Pension Plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the calculation results in a benefit to the Group, the asset recognised is limited to the present value of benefits available in the form of any future refunds from the plan, reductions in future contributions to the plan or settlement of the plan and takes into account the adverse effect of any minimum funding requirements.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the statement of comprehensive income on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the statement of comprehensive income.

The increase in the present value of the liabilities expected to arise from the employees' services in the accounting period is charged to the income statement. The expected return on the schemes' assets and the interest on the present value of the schemes' liabilities during the accounting period are shown as finance income and finance expense respectively. Actuarial gains and losses are recognised immediately in equity.

**1 Accounting Policies continued****Share-Based Payment Transactions**

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date using the Black-Scholes Model and spread 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 except where forfeiture is due only to share prices not achieving the threshold for vesting.

Share appreciation rights are also granted by the Company to employees. The fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value of the share appreciation rights is measured taking into account the terms and conditions upon which the instruments were granted. The liability is remeasured at each balance sheet date and at settlement date and any changes in fair value are recognised in the income statement.

**Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**Own shares held by Employee Benefit Trust ("EBT")**

Transactions of the Group sponsored EBT are included in the Group financial information. In particular, the trust's purchase of shares in the Company are debited directly to equity.

**Revenue**

Revenue represents the total amount receivable for goods sold, excluding sales related taxes and intra Group transactions. All the Group's revenue is received from the sale of goods.

- Box office revenue is recognised on the date of the showing of the film it relates to
- Concessions revenue is recognised at point of sale
- Advertising revenue is recognised when the advertisement is shown
- Unlimited card revenue is received annually or monthly in advance. When revenue from the Unlimited card is received annually in advance it is recognised on a straight-line basis over the year. Monthly Unlimited card revenue is recognised in the period to which it relates
- Other revenue is recognised in the period to which it relates

**Expenses****Virtual Print Fees**

A Virtual Print Fee ("VPF") represents a discount from the cost Cineworld pays for film rental and reflects the cost saving to the studios of the move to digital. A VPF is receivable the first time a film is played in a digital format on a screen rather than using 35mm film.

A VPF is recognised on the date of the showing of the film it relates to and is included in cost of sales as a reduction of the film hire costs. VPFs are expected to be received for between seven and ten years, dependent upon the length of time it takes Cineworld to convert to digital projectors.

**Operating Lease Payments**

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense. Where the Group has operating leases that contain minimum guaranteed rental uplifts over the life of the lease, the Group recognises the guaranteed minimum lease payment on a straight line basis over the lease term.

**Finance Lease Payments**

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**Net Financing Costs**

Net financing costs comprise interest payable, amortisation of financing costs, unwind of discount on onerous lease provisions, finance lease interest, net gain/loss on remeasurement of interest rate swaps, interest receivable on funds invested, foreign exchange gains and losses and finance costs for defined benefit pension schemes.

**Sale and Leaseback**

Where the Group enters into a sale and leaseback transaction whereby the risks and rewards of ownership of the assets concerned have not been substantially transferred to the lessor, any excess of sales proceeds over the previous carrying amount are deferred and recognised in the income statement over the lease term. At the date of the transaction the assets and the associated finance lease liabilities on the Group's balance sheet are stated at the lower of fair value of the leased assets and the present value of the minimum lease payments.

## Notes to the Consolidated Financial Statements continued

### (Forming Part of the Financial Statements)

#### 1 Accounting Policies continued

Where the Group enters into a sale and leaseback transaction whereby the risks and rewards of ownership of the assets concerned have been substantially transferred to the lessor, any excess of sales proceeds over the previous carrying amount is recognised in the income statement on completion of the transaction, when the sale and subsequent lease back has been completed at fair value

#### Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income 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 period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognised using the balance sheet method, providing temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet 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 asset can be utilised.

#### Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

#### Significant Accounting Judgements and Estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

#### 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.

In applying the Group's accounting policies described above the Directors have identified that the following areas are the key estimates that have a significant impact on the amounts recognised in the financial statements:

#### Onerous Leases

Provision is made for onerous leases where it is considered that the unavoidable costs of the lease obligations are in excess of the economic benefits expected to be received from operating it. The unavoidable costs of the lease reflect the least net cost of exiting from the contract and are measured as the lower of the net cost of continuing to operating the lease and any penalties or other costs from exiting it.

When calculating the provision for onerous leases the Group is required to make certain assumptions about the future cash flows to be generated from that cinema site. It is also required to discount these cash flows using an appropriate discount rate. The resulting provision is therefore very sensitive to these assumptions; however, the Directors consider that the assumptions made represent their best estimate of the future cash flows generated by onerous cinema sites, and that the discount rate used is appropriate given the risks associated with these cash flows.

#### Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimate of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit that holds the goodwill at a determined discount rate to calculate the present value of those cash flows.

Forecasting expected cash flows, and selecting an appropriate discount rate inherently requires estimation, however management has also applied sensitivity analysis to the estimates which does not affect the outcome (see Note 10).

#### Impairment of Tangible Fixed Assets

The Group determines whether tangible fixed assets are impaired when indicators of impairments exist. This requires an estimate of the value in use of the cash generating units to which the tangible fixed assets are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units that holds the tangible fixed assets at a determined discount rate to calculate the present value of those cash flows.

## 1 Accounting Policies continued

When reviewing fixed assets for impairment, the Group is required to make certain assumptions about the future cash flows to be generated from the individual cinema sites. It is also required to discount these cash flows using an appropriate discount rate. The resulting calculation is therefore very sensitive to these assumptions. However, the Directors consider that the assumptions made represent their best estimate of the future cash flows generated by the cinema sites, and that the discount rate used is appropriate given the risks associated with these cash flows.

### Employee Post Retirement Benefit Obligations

The Group has two defined benefit pension plans. The obligations under these plans are recognised in the balance sheet and represent the present value of the obligations calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates, return on assets, salary progression and mortality rates. These assumptions vary from time to time according to prevailing economic and social conditions. Details of the assumptions used are provided in Note 18.

Management consider that the assumptions used are the most appropriate but recognise that the resulting pension liability is very sensitive to these assumptions.

### Deferred Tax Assets

The Group recognises deferred tax assets for temporary differences arising at the balance sheet date. The Group applies estimates when calculating the carrying value of these assets and considering whether future taxable profits are sufficient to ensure their recoverability.

### Judgements

In addition, the Directors are required to make certain judgements when applying the Group's accounting policies described above. The key judgements are:

#### Finance and Operating Leases

When the Group enters into a new lease it is required to consider whether it bears substantially all the risks and rewards of the asset. The Group considers the requirements of IAS 17 "Leases" when determining whether it has an operating or finance lease, and in most cases the outcome is clear.

#### Hedging Arrangements

The Group enters into interest rate swaps to fix a portion of its exposure to variable interest rates on its loan arrangements. In order to apply the hedge accounting provisions of IAS 39 "Financial Instruments", the Group must consider the effectiveness of its hedging arrangements when deciding whether they can hedge account.

#### New Standards and Interpretations

The Directors considered the impact of other new and revised accounting standards, interpretations or amendments on the Group that are currently endorsed but not yet effective. It was concluded that none were relevant to the Group's results.

## 2 Operating Segments

Determination and presentation of operating segments

Further to the adoption of IFRS 8, the Group has determined that it has one operating segment and therefore one reportable segment being cinema operations. All the disclosable operating segment information required by IFRS 8 can be found in the primary statements.

Revenue by destination and by origin from countries other than the UK in all financial periods was not material. Likewise non-current assets located in other countries other than the UK in all financial periods are not material.

### Entity Wide Disclosures

|                                         | 52 week<br>period ended<br>29 December<br>2011<br>Total<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>Total<br>£m |
|-----------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|
| Revenue by product and service provided |                                                               |                                                               |
| Box office                              | 242.1                                                         | 235.8                                                         |
| Retail                                  | 81.6                                                          | 81.6                                                          |
| Other                                   | 24.3                                                          | 25.4                                                          |
| <b>Total revenue</b>                    | <b>348.0</b>                                                  | <b>342.8</b>                                                  |

All revenue streams are driven by admissions. The Group's internal management reporting and operations are not separated into these categories.

## Notes to the Consolidated Financial Statements continued

(Forming Part of the Financial Statements)

### 3 Other Operating Income

|               | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
|---------------|------------------------------------------------------|------------------------------------------------------|
| Rental income | 0.4                                                  | 0.6                                                  |
|               | <b>0.4</b>                                           | <b>0.6</b>                                           |

### 4 Operating Profit

Included in operating profit for the period are the following

|                                                                              | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
|------------------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Depreciation                                                                 | 18.8*                                                | 17.0*                                                |
| Impairments                                                                  | –                                                    | 4.5*                                                 |
| Reversals of impairments                                                     | –                                                    | (1.3)*                                               |
| Amortisation of intangibles (Note 11)                                        | 0.1                                                  | 0.2                                                  |
| Onerous lease and other non-recurring or non-cash property (credits)/charges | (0.5)                                                | 1.3†                                                 |
| Transaction and reorganisation costs                                         | 3.9                                                  | 0.2                                                  |
| Hire of other assets – operating leases                                      | 48.8                                                 | 46.5§                                                |

\* Included in administrative expenses

† £0.5m (2010: £0.8m) is included in administrative costs. The balance is included in cost of sales

§ £0.7m (2009: £0.9m) is included in administrative costs. The balance is included in cost of sales

See Note 10 for details of impairments and impairment reversals

In 2011 there was a £0.2m dilapidations credit (2010: charge of £0.8m), a net £0.3m credit on onerous leases following changes in trading assumptions (2010: £nil) and non-cash property charges of £nil (2010: charge of £0.5m)

In 2011, transaction costs relate to an attempted acquisition and the majority of reorganisation costs relate to the digital conversion and harmonising audio/visual work across the whole circuit, including redundancy costs. In 2010, transaction and reorganisation costs relate to professional fees incurred in connection with the O2 acquisition.

The total remuneration of the Group auditors, KPMG Audit Plc, and its affiliates for the services to the Group is analysed below

|                                                                                                                | 52 week<br>period ended<br>29 December<br>2011<br>£000 | 52 week<br>period ended<br>30 December<br>2010<br>£000 |
|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|
| Auditors' remuneration                                                                                         |                                                        |                                                        |
| Group – audit                                                                                                  | 207                                                    | 196                                                    |
| Company – audit                                                                                                | 6                                                      | 5                                                      |
| Amounts received by auditors and their associates in respect of                                                |                                                        |                                                        |
| – Audit of financial statements pursuant to legislation                                                        | 213                                                    | 201                                                    |
| – Audit related regulatory reporting                                                                           | 54                                                     | 41                                                     |
|                                                                                                                | <b>267</b>                                             | <b>242</b>                                             |
| – Other services relating to taxation                                                                          | 245                                                    | 226                                                    |
| – Valuation and actuarial services                                                                             | 11                                                     | 34                                                     |
| – Services relating to corporate finance transactions entered into by or on behalf of the Company or the Group | 163                                                    | 86                                                     |
| – Other                                                                                                        | 12                                                     | 7                                                      |

## 5 Earnings Per Share

Basic earnings per share is calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, after excluding the weighted average number of non-vested ordinary shares held by the employee ownership trust. Adjusted pro-forma earnings per share is calculated in the same way except that the profit for the period attributable to ordinary shareholders is adjusted by adding back the amortisation of intangible assets, the cost of share-based payments, any other one off income or expense and applying a tax charge at the statutory rate, to the adjusted profit.

Diluted earnings per share is calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, after excluding the weighted average number of non-vested ordinary shares held by the employee share ownership trust and after adjusting for the effects of dilutive options.

|                                                | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
|------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Earnings attributable to ordinary shareholders | 23.9                                                 | 21.0                                                 |
| Adjustments                                    |                                                      |                                                      |
| Amortisation of intangible assets              | 0.1                                                  | 0.2                                                  |
| Share-based payments                           | 0.6                                                  | 0.5                                                  |
| Transaction and reorganisation costs           | 3.9                                                  | 0.2                                                  |
| Impairments and reversals of impairments       | –                                                    | 3.2                                                  |
| Impact of straight-lining of operating leases  | –                                                    | 0.5                                                  |
| Dilapidations (credit)/costs                   | (0.2)                                                | 0.8                                                  |
| Onerous lease credit                           | (0.3)                                                | –                                                    |
| Defined benefit scheme indexation gain         | (1.7)                                                | –                                                    |
| Refinancing expenses                           | 1.2                                                  | –                                                    |
| Adjusted earnings                              | 27.5                                                 | 26.4                                                 |
| Add back tax charge                            | 9.5                                                  | 9.4                                                  |
| Adjusted pro forma profit before tax           | 37.0                                                 | 35.8                                                 |
| Less tax at statutory rate (26%/28%)           | (9.6)                                                | (10.0)                                               |
| Adjusted pro-forma profit after tax            | 27.4                                                 | 25.8                                                 |

|                                                   | 52 week<br>period ended<br>29 December<br>2011<br>Number of<br>shares (m) | 52 week<br>period ended<br>30 December<br>2010<br>Number of<br>shares (m) |
|---------------------------------------------------|---------------------------------------------------------------------------|---------------------------------------------------------------------------|
| Weighted average number of shares in issue        | 142.0                                                                     | 141.7                                                                     |
| Basic and adjusted earnings per share denominator | 142.0                                                                     | 141.7                                                                     |
| Dilutive options                                  | 0.9                                                                       | 1.1                                                                       |
| Diluted earnings per share denominator            | 142.9                                                                     | 142.8                                                                     |
| Shares in issue at period end                     | 142.3                                                                     | 141.7                                                                     |

|                                               | Pence | Pence |
|-----------------------------------------------|-------|-------|
| Basic earnings per share                      | 16.8  | 14.8  |
| Diluted earnings per share                    | 16.7  | 14.7  |
| Adjusted pro-forma basic earnings per share   | 19.3  | 18.2  |
| Adjusted pro-forma diluted earnings per share | 19.2  | 18.1  |

## Notes to the Consolidated Financial Statements continued

(Forming Part of the Financial Statements)

### 6 Staff Numbers and Costs

The average number of persons employed by the Group (including Directors) during the period, analysed by category, was as follows

|             | Number of staff |              |
|-------------|-----------------|--------------|
|             | 2011            | 2010         |
| Head office | 155             | 138          |
| Cinemas     | 4,517           | 4,487        |
|             | <b>4,672</b>    | <b>4,625</b> |

Included in the average number of persons employed by the Group are part-time employees. No distinction is made between full-time and part time employees in the analysis above.

The aggregate payroll costs of these persons were as follows

|                                            | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
|--------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Wages and salaries                         | 48.2                                                 | 48.1                                                 |
| Social security costs                      | 3.1                                                  | 3.3                                                  |
| Other pension costs – Defined contribution | 0.4                                                  | 0.4                                                  |
| Share based payments (see Note 18)         | 0.6                                                  | 0.5                                                  |
|                                            | <b>52.3</b>                                          | <b>52.3</b>                                          |

See pages 45 to 50 for Directors' remuneration

### 7. Finance Income and Expense

|                                                                                             | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
|---------------------------------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Interest income                                                                             | 0.1                                                  | 0.3                                                  |
| Expected return on defined benefit pension plan assets (Note 18)                            | 1.5                                                  | 1.3                                                  |
| <b>Finance income</b>                                                                       | <b>1.6</b>                                           | <b>1.6</b>                                           |
| Interest expense on bank loans and overdrafts                                               | 5.3                                                  | 4.1                                                  |
| Amortisation of financing costs                                                             | 0.7                                                  | 0.4                                                  |
| Unwind of discount on onerous lease provision                                               | 1.2                                                  | 1.0                                                  |
| Finance cost for defined benefit pension scheme (Note 18)                                   | 1.4                                                  | 1.5                                                  |
| Interest charge as a result of change in discount rate relating to onerous lease provisions | 0.6                                                  | 0.8                                                  |
| Other financial costs                                                                       | 0.5                                                  | 0.4                                                  |
| <b>Finance expense</b>                                                                      | <b>9.7</b>                                           | <b>8.2</b>                                           |
| Refinancing expense                                                                         | 1.1                                                  | –                                                    |
| <b>Total financial expense</b>                                                              | <b>10.8</b>                                          | <b>8.2</b>                                           |
| Recognised within other comprehensive income                                                |                                                      |                                                      |
|                                                                                             | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
| Movement in fair value of interest rate swap                                                | (0.6)                                                | 1.1                                                  |
| Foreign exchange translation gain                                                           | –                                                    | 0.2                                                  |
| <b>Finance income</b>                                                                       | <b>(0.6)</b>                                         | <b>1.3</b>                                           |

**8 Taxation**  
**Recognised in the Income Statement**

|                                                   | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
|---------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| <b>Current tax expense</b>                        |                                                      |                                                      |
| Current year                                      | 8.5                                                  | 8.3                                                  |
| Adjustments in respect of prior years             | (3.3)                                                | (0.6)                                                |
| <b>Total current tax expense</b>                  | <b>5.2</b>                                           | <b>7.7</b>                                           |
| <b>Deferred tax expense</b>                       |                                                      |                                                      |
| Origination and reversal of temporary differences | 4.3                                                  | 1.7                                                  |
| Adjustments in respect of prior years             | –                                                    | –                                                    |
| <b>Total tax charge in income statement</b>       | <b>9.5</b>                                           | <b>9.4</b>                                           |

**Reconciliation of Effective Tax Rate**

|                                                                       | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
|-----------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| <b>Profit before tax</b>                                              | <b>33.4</b>                                          | <b>30.4</b>                                          |
| Tax using the UK corporation tax rate of 26.5% (2010: 28%)            | 8.9                                                  | 8.5                                                  |
| Differences in overseas tax rates                                     | (0.1)                                                | (0.1)                                                |
| Permanently disallowed depreciation                                   | 1.0                                                  | 1.1                                                  |
| Other permanent differences                                           | 2.4                                                  | –                                                    |
| Adjustments in respect of prior years                                 | (3.3)                                                | (0.6)                                                |
| Effect of change in statutory rate to 25% (2010: 27%) on deferred tax | 0.6                                                  | 0.5                                                  |
| <b>Total tax charge in income statement</b>                           | <b>9.5</b>                                           | <b>9.4</b>                                           |

During the period there was a deferred tax credit of £1.0m (2010: charge of £0.1m) recognised directly in equity in connection with the actuarial loss on the defined benefit scheme and the increase in the fair value of the cash flow hedge on part of the Group's bank loans, together with the impact of those items of the change in statutory rate, see Note 13.

**Factors that may affect future tax charges**

As at 29 December 2011 the Group had potential tax assets relating to the following:

- other non-trading losses of approximately £2.6m (2010: £2.6m)
- capital losses of approximately £7.6m (2010: £7.6m)

A deferred tax asset has not been recognised in respect of non-trading and capital losses carried forward as it is unclear whether non-trading income or capital gains against which the losses may be offset will arise in the Group for the foreseeable future. The net tax benefit of utilising any of the above losses is expected to amount to approximately 25% of the losses utilised.

Deferred tax is not provided on unremitted earnings of subsidiaries and joint ventures where the Group controls the timing of remittance and it is probable that the temporary difference will not reverse in the foreseeable future.

The emergency budget announced a phased reduction in the main UK corporation tax rate from 28% to 23% by April 2014, with the first 1% reduction taking effect from 1 April 2011 (and substantively enacted on 20 July 2010), followed by the subsequent reduction to 26% from 1 April 2011 (substantively enacted on 29 March 2011) and a further reduction to 25% from 1 April 2012 (substantively enacted on 5 July 2011). The budget also set out various other proposed corporation tax changes, including changes in capital allowance rates.

## Notes to the Consolidated Financial Statements continued

(Forming Part of the Financial Statements)

### 9 Purchase of Trade and Assets

On 25 June 2010 Cineworld purchased the trade and assets (largely fixtures, fittings, plant and machinery) of the cinema complex located within The O2 in Greenwich, London, for £4.0m satisfied in cash. As part of the agreement Cineworld also signed a 25 year lease on the cinema site at a market rate.

The acquisitions had the following effect on the Company's assets and liabilities

|                                               | Carrying<br>amounts<br>£m | Fair value<br>adjustments<br>£m | Fair values<br>on acquisition<br>£m |
|-----------------------------------------------|---------------------------|---------------------------------|-------------------------------------|
| Acquiree's net assets at the acquisition date |                           |                                 |                                     |
| Fixtures, fittings, plant and equipment       | 8.0                       | (5.0)                           | 3.0                                 |
| Net identifiable assets and liabilities       |                           |                                 | 3.0                                 |
| Goodwill on acquisition                       |                           |                                 | 1.0                                 |
| Consideration paid, satisfied in cash         |                           |                                 | 4.0                                 |
| Net cash outflow                              |                           |                                 | 4.0                                 |

The Goodwill of £1.0m represents the opportunity for synergies from the combined operations as well as the employees transferred in connection with the business.

Transaction costs of £0.2m were expensed in 2010. The Group assessed the fair value of the assets acquired at £3.0m based on appropriate valuation methodology.

Revenue of £3.0m relating to the acquiree was included in the consolidated statement of comprehensive income for the prior year reporting period. If the acquisition had occurred at the beginning of the prior year financial period approximately £4.1m revenue would relate to the acquiree.

### 10 Property, Plant and Equipment

|                                                | Land and<br>buildings<br>£m | Plant and<br>machinery<br>£m | Fixtures and<br>fittings<br>£m | Assets in the<br>course of<br>construction<br>£m | Total<br>£m |
|------------------------------------------------|-----------------------------|------------------------------|--------------------------------|--------------------------------------------------|-------------|
| <b>Cost</b>                                    |                             |                              |                                |                                                  |             |
| <b>Balance at 31 December 2009</b>             | 88.5                        | 38.2                         | 46.8                           | –                                                | 173.5       |
| Additions                                      | 2.1                         | 10.6                         | 7.3                            | –                                                | 20.0        |
| Disposals                                      | –                           | (2.6)                        | (5.0)                          | –                                                | (7.6)       |
| Transfers                                      | –                           | –                            | –                              | –                                                | –           |
| Effects of movement in foreign exchange        | (0.2)                       | (0.1)                        | (0.5)                          | –                                                | (0.8)       |
| <b>Balance at 30 December 2010</b>             | 90.4                        | 46.1                         | 48.6                           | –                                                | 185.1       |
| Additions                                      | 0.8                         | 16.6                         | 8.9                            | 2.6                                              | 28.9        |
| Disposals                                      | –                           | (7.2)                        | (10.8)                         | –                                                | (18.0)      |
| Transfers                                      | 2.6                         | –                            | –                              | (2.6)                                            | –           |
| Effects of movement in foreign exchange        | (0.1)                       | –                            | (0.2)                          | –                                                | (0.3)       |
| <b>Balance at 29 December 2011</b>             | 93.7                        | 55.5                         | 46.5                           | –                                                | 195.7       |
| <b>Accumulated depreciation and impairment</b> |                             |                              |                                |                                                  |             |
| <b>Balance at 31 December 2009</b>             | 13.6                        | 17.6                         | 27.7                           | –                                                | 58.9        |
| Charge for the period                          | 5.0                         | 5.8                          | 6.2                            | –                                                | 17.0        |
| Disposals                                      | –                           | (2.6)                        | (5.0)                          | –                                                | (7.6)       |
| Effects of movement in foreign exchange        | (0.1)                       | (0.1)                        | (0.4)                          | –                                                | (0.6)       |
| Impairments                                    | 3.7                         | 0.6                          | 0.2                            | –                                                | 4.5         |
| Reversal of impairments                        | (1.3)                       | –                            | –                              | –                                                | (1.3)       |
| <b>Balance at 30 December 2010</b>             | 20.9                        | 21.3                         | 28.7                           | –                                                | 70.9        |
| Charge for the period                          | 5.0                         | 6.4                          | 7.4                            | –                                                | 18.8        |
| Disposals                                      | –                           | (7.2)                        | (10.8)                         | –                                                | (18.0)      |
| Effects of movement in foreign exchange        | (0.1)                       | –                            | (0.2)                          | –                                                | (0.3)       |
| <b>Balance at 29 December 2011</b>             | 25.8                        | 20.5                         | 25.1                           | –                                                | 71.4        |
| <b>Net book value</b>                          |                             |                              |                                |                                                  |             |
| At 31 December 2009                            | 74.9                        | 20.6                         | 19.1                           | –                                                | 114.6       |
| At 30 December 2010                            | 69.5                        | 24.8                         | 19.9                           | –                                                | 114.2       |
| <b>At 29 December 2011</b>                     | 67.9                        | 35.0                         | 21.4                           | –                                                | 124.3       |

#### 10 Property, Plant and Equipment continued

Land and Buildings are made up of short leasehold properties encompassing leasehold improvements

Of the £28.3m (2010: £20m) of additions during the year, £14.1m (2010: £10.5m) relates to the acquisition and installation of digital projection equipment

The net book value of assets held under a finance lease is

|                                                                         | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m |
|-------------------------------------------------------------------------|---------------------------|---------------------------|
| <b>The net book value of assets held under finance leases comprised</b> |                           |                           |
| Opening net book value                                                  | 4.9                       | 5.1                       |
| Depreciation charge                                                     | (0.2)                     | (0.2)                     |
| <b>Closing net book value</b>                                           | <b>4.7</b>                | <b>4.9</b>                |

The above assets held under finance leases relate to a finance lease held on one cinema site which is included within land and buildings

Interest of £40,000 (2010: £nil) has been capitalised during the period which relates to the construction of a new site

With respect to the tangible fixed asset disposals, no proceeds were receivable in the period

#### Impairment

The Group considers each Cinema site to be a cash generating unit ("CGU") and each CGU is reviewed annually for indicators of impairment. In assessing whether an asset has been impaired, the carrying amount of the CGU is compared to its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. In the absence of any information about the fair value of a CGU, the recoverable amount is deemed to be its value in use. The Group estimates value in use using a discounted cash flow model, which applies a pre-tax discount rate of 9.0% (2010: 9.5%). The future cash flows are based on financial budgets approved by management covering a 1 year period. Cash flows beyond the 1st period have been extrapolated using the assumptions used in the impairment model (see Note 11). The £4.5m impairment loss in the prior reporting period was caused by trading not reaching expectations for the foreseeable future in relation to two cinema sites. No indicators of impairment were identified in the current year.

#### Impairment Reversals

In 2010, following an improvement in trading performance and an increase in the estimated future cash flows of previously impaired sites, reversals of £1.3m were recognised at three sites.

#### Sensitivity to Changes in Assumptions

The level of impairment is predominantly dependent upon judgements used in arriving at future growth rates and the discount rate applied to cash flow projections. The impact on the impairment charge of applying different assumptions to the growth rates used in the five year business plan and in the discount rates would be as follows:

|                                                                                  | £m |
|----------------------------------------------------------------------------------|----|
| Impairment if business plan growth rates were reduced by 1% for first five years | -  |
| Impairment if discount rate was increased by 1%                                  | -  |

## Notes to the Consolidated Financial Statements continued

(Forming Part of the Financial Statements)

### 11 Intangible Assets

|                                                | Goodwill<br>£m | Brand<br>£m | Total<br>£m  |
|------------------------------------------------|----------------|-------------|--------------|
| <b>Cost</b>                                    |                |             |              |
| Balance at 31 December 2009                    | 223.8          | 1.2         | 225.0        |
| Additions                                      | 1.0            | –           | 1.0          |
| Balance at 30 December 2010                    | 224.8          | 1.2         | 226.0        |
| <b>Balance at 29 December 2011</b>             | <b>224.8</b>   | <b>1.2</b>  | <b>226.0</b> |
| <b>Accumulated amortisation and impairment</b> |                |             |              |
| Balance at 31 December 2009                    | 7.7            | 0.6         | 8.3          |
| Amortisation                                   | –              | 0.2         | 0.2          |
| Balance at 30 December 2010                    | 7.7            | 0.8         | 8.5          |
| Amortisation                                   | –              | 0.1         | 0.1          |
| <b>Balance at 29 December 2011</b>             | <b>7.7</b>     | <b>0.9</b>  | <b>8.6</b>   |
| <b>Net book value</b>                          |                |             |              |
| At 31 December 2009                            | 216.1          | 0.6         | 216.7        |
| At 30 December 2010                            | 217.1          | 0.4         | 217.5        |
| <b>At 29 December 2011</b>                     | <b>217.1</b>   | <b>0.3</b>  | <b>217.4</b> |

#### Impairment Testing

Each individual cinema is considered to be a CGU. However, for the purpose of testing goodwill for impairment, it is acceptable under IAS 36 to group CGUs. Furthermore, the ex-Cine-UK and ex-UGC (including Dublin) businesses are now fully integrated, meaning that goodwill is now monitored on a Group wide level. The following assumptions have been applied to both individual CGUs when testing for impairment of PPE and groups of CGUs for goodwill impairment testing.

The recoverable amount of Cineworld has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a one-year period. Cash flows beyond the first year period have been extrapolated using the below assumptions. This growth rate does not exceed the long-term average growth rate for the market in which Cineworld operates.

The key assumptions behind the impairment review are as follows:

2011 forecast earnings before interest, tax, depreciation, and amortisation ("EBITDA") was used as the basis of the future cash flow calculation. This is adjusted to add back rent (EBITDAR) and essential capex on existing sites. In line with long-term industry growth rates, EBITDAR is assumed to grow at 3% per annum.

Property costs are factored into the model, but are assumed to grow at 2.5% per annum over the life of the model. Cash flows are not assumed in perpetuity.

The Group has discounted forecast flows using a pre-tax discount rate of 9.0% (2010: 9.5%) being a market participant's discount rate. This is considered to reflect the risks associated with the relevant cash flows.

Management have sensitised the key assumptions including the discount rate and under base case and sensitised case no indicators of impairment exist. Management believes that any reasonably possible change in the key assumptions on which Cineworld's recoverable amount is based would not cause Cineworld's carrying amount to exceed its recoverable amount.

#### Amortisation Charge

The amortisation of intangible assets is recognised in the following line items in the income statement:

|                         | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
|-------------------------|------------------------------------------------------|------------------------------------------------------|
| Administrative expenses | 0.1                                                  | 0.2                                                  |

## 12 Investment in Equity Accounted Investee

The Group has the following investment in a jointly controlled entity:

|                              | Country of<br>incorporation | Class of<br>shares held | Ownership |
|------------------------------|-----------------------------|-------------------------|-----------|
| Digital Cinema Media Limited | England and Wales           | Ordinary                | 50%       |

On 8 February 2008 the Group jointly formed Digital Cinema Media Limited ("DCM") with Odeon Cinemas Holdings Limited ("Odeon")  
On 10 July 2008 DCM acquired certain trade and assets (substantially employees, computer systems, leasehold office and existing contracts) from Carlton Screen Advertising Limited, the Group's former advertising supplier

Under the terms of the shareholder agreement between the Group and Odeon, key business decisions in respect of DCM require the unanimous approval of the shareholders. As a consequence, the Directors of the Group do not have total management control of DCM, therefore the Group's investment is accounted for as a joint venture

|                                    | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m |
|------------------------------------|---------------------------|---------------------------|
| Cost                               | 0.9                       | 0.9                       |
| Share of post acquisition reserves | (0.1)                     | -                         |
|                                    | 0.8                       | 0.9                       |
| Share of post tax profit/(loss)    | -                         | (0.1)                     |
| Carrying value                     | 0.8                       | 0.8                       |

Summary aggregated financial information on jointly controlled entities – 100%

|                          | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m |
|--------------------------|---------------------------|---------------------------|
| Current assets           | 16.3                      | 13.5                      |
| Non-current assets       | 1.7                       | 1.8                       |
| Current liabilities      | (17.8)                    | (13.2)                    |
| Non-current liabilities  | (0.4)                     | (2.3)                     |
| Net (liabilities)/assets | (0.2)                     | (0.2)                     |
| Income                   | 52.1                      | 44.5                      |
| Expenses                 | (52.0)                    | (44.7)                    |
| Net profit/(loss)        | 0.1                       | (0.2)                     |

Screen advertising represents an important part of the Group's revenue streams and the joint venture partners recognise the importance of protecting this revenue stream. The joint venture partners are able to reduce their share of the advertising income if deemed necessary to support DCM.

## 13 Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following

|                                                       | Assets                    |                           | Liabilities               |                           | Net                       |                           |
|-------------------------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                                                       | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m |
| Property, plant and equipment                         | 1.4                       | 3.9                       | (2.3)                     | (2.5)                     | (0.9)                     | 1.4                       |
| Intangible assets                                     | -                         | -                         | (0.1)                     | (0.1)                     | (0.1)                     | (0.1)                     |
| Employee benefits                                     | 0.3                       | 0.3                       | (0.5)                     | -                         | (0.2)                     | 0.3                       |
| Reverse premiums                                      | 2.5                       | 2.8                       | -                         | -                         | 2.5                       | 2.8                       |
| Effect of straight lining operating lease<br>accruals | 7.3                       | 7.9                       | -                         | -                         | 7.3                       | 7.9                       |
| Interest rate swap                                    | 1.1                       | 0.7                       | -                         | -                         | 1.1                       | 0.7                       |
| Tax assets/(liabilities)                              | 12.6                      | 15.6                      | (2.9)                     | (2.6)                     | 9.7                       | 13.0                      |
| Set off tax                                           | (0.6)                     | (0.7)                     | 0.6                       | 0.7                       | -                         | -                         |
| Net tax assets/(liabilities)                          | 12.0                      | 14.9                      | (2.3)                     | (1.9)                     | 9.7                       | 13.0                      |

See Note 8 for details of unrecognised tax assets

## Notes to the Consolidated Financial Statements continued

(Forming Part of the Financial Statements)

### 13 Deferred Tax Assets and Liabilities continued

Deferred taxation provided for in the financial statements at the period end represents provision at 25% (2010 27%) on the above items. The effect of the change in statutory rate from 27% to 25% resulted in a £0.7m charge recognised in income (2010 28% to 27% £0.5m). In line with government announcements (see Note 8), a further reduction in the net deferred asset is expected.

A review of the deferred tax will be performed at each balance date and adjustments made in the event of a change in any key assumptions.

Deferred tax assets and liabilities are attributable to the following:

|                                                    | 30 December<br>2010<br>£m | Recognised<br>in income<br>£m | Recognised<br>in equity<br>£m | 29 December<br>2011<br>£m |
|----------------------------------------------------|---------------------------|-------------------------------|-------------------------------|---------------------------|
| Property, plant and equipment                      | 1.4                       | (2.3)                         | –                             | (0.9)                     |
| Intangible assets                                  | (0.1)                     | –                             | –                             | (0.1)                     |
| Employee benefits                                  | 0.3                       | (0.8)                         | 0.3                           | (0.2)                     |
| Reverse premiums                                   | 2.8                       | (0.3)                         | –                             | 2.5                       |
| Effect of straight lining operating lease accruals | 7.9                       | (0.6)                         | –                             | 7.3                       |
| Interest rate swap                                 | 0.7                       | (0.3)                         | 0.7                           | 1.1                       |
| <b>Tax assets/(liabilities)</b>                    | <b>13.0</b>               | <b>(4.3)</b>                  | <b>1.0</b>                    | <b>9.7</b>                |

|                                                    | 31 December<br>2009<br>£m | Recognised<br>in income<br>£m | Recognised<br>in equity<br>£m | 31 December<br>2010<br>£m |
|----------------------------------------------------|---------------------------|-------------------------------|-------------------------------|---------------------------|
| Property, plant and equipment                      | 2.6                       | (1.2)                         | –                             | 1.4                       |
| Intangible assets                                  | (0.2)                     | 0.1                           | –                             | (0.1)                     |
| Employee benefits                                  | 0.4                       | (0.3)                         | 0.2                           | 0.3                       |
| Reverse premiums                                   | 2.9                       | (0.1)                         | –                             | 2.8                       |
| Effect of straight lining operating lease accruals | 8.1                       | (0.2)                         | –                             | 7.9                       |
| Interest rate swap                                 | 1.0                       | –                             | (0.3)                         | 0.7                       |
| <b>Tax assets/(liabilities)</b>                    | <b>14.8</b>               | <b>(1.7)</b>                  | <b>(0.1)</b>                  | <b>13.0</b>               |

### 14 Inventories

|                  | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m |
|------------------|---------------------------|---------------------------|
| Goods for resale | 2.1                       | 2.2                       |
|                  | <b>2.1</b>                | <b>2.2</b>                |

Goods for resale recognised in cost of sales in the period amounted to £17.6m (2010 £19.1m).

### 15 Trade and Other Receivables

|                                   | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m |
|-----------------------------------|---------------------------|---------------------------|
| <b>Current</b>                    |                           |                           |
| Trade receivables                 | 1.9                       | 2.4                       |
| Other receivables                 | 0.1                       | 1.2                       |
| Prepayments and accrued income    | 24.6                      | 19.9                      |
|                                   | <b>26.6</b>               | <b>23.5</b>               |
| <b>Non current</b>                |                           |                           |
| Land lease premiums               | 0.9                       | 0.9                       |
| Loan to jointly controlled entity | 0.5                       | 0.5                       |
|                                   | <b>1.4</b>                | <b>1.4</b>                |

## 16 Interest-Bearing Loans and Borrowings and Other Financial Liabilities

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings

|                                                                | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m |
|----------------------------------------------------------------|---------------------------|---------------------------|
| <b>Non-current liabilities</b>                                 |                           |                           |
| Interest rate swaps                                            | 2.8                       | 0.5                       |
| Unsecured bank loan, less issue costs of debt to be amortised  | 91.1                      | 93.0                      |
| Liabilities under finance leases                               | 6.1                       | 6.2                       |
|                                                                | <b>100.0</b>              | <b>99.7</b>               |
| <b>Current liabilities</b>                                     |                           |                           |
| Interest rate swaps                                            | 1.7                       | 2.3                       |
| Unsecured bank loans, less issue costs of debt to be amortised | 4.6                       | 8.8                       |
| Liabilities under finance leases                               | 0.6                       | 0.6                       |
|                                                                | <b>6.9</b>                | <b>11.7</b>               |

The terms and conditions of outstanding loans were as follows

|                                    | 29 December 2011 |                       |                  |               |                    | 30 December 2010      |                  |               |                    |
|------------------------------------|------------------|-----------------------|------------------|---------------|--------------------|-----------------------|------------------|---------------|--------------------|
|                                    | Currency         | Nominal interest rate | Year of maturity | Face value £m | Carrying amount £m | Nominal interest rate | Year of maturity | Face value £m | Carrying amount £m |
| Unsecured bank loan                | GBP              | LIBOR + 1.95%         | 2016             | 97.0          | 95.7               | LIBOR + 0.7%          | 2012             | 102.0         | 101.8              |
| Finance lease liability            | GBP              | 7.2%                  | 2029             | 6.7           | 6.7                | 7.2%                  | 2029             | 6.8           | 6.8                |
| Total interest bearing liabilities |                  |                       |                  | 103.7         | 102.4              |                       |                  | 108.8         | 108.6              |

See Note 21 for bank loan maturity analysis

### Finance Lease Liabilities

The maturity of obligations under finance leases is as follows

|                              | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m |
|------------------------------|---------------------------|---------------------------|
| Within one year              | 0.6                       | 0.6                       |
| Between one and two years    | 0.6                       | 0.6                       |
| In the second to fifth years | 1.9                       | 1.8                       |
| Over five years              | 9.1                       | 9.8                       |
|                              | <b>12.2</b>               | <b>12.8</b>               |
| Less future finance charges  | (5.5)                     | (6.0)                     |
|                              | <b>6.7</b>                | <b>6.8</b>                |

### Analysis of net debt

|                            | Cash at bank<br>and in hand<br>£m | Bank<br>loans<br>£m | Finance<br>leases<br>£m | Interest<br>rate swap<br>£m | Net debt<br>£m |
|----------------------------|-----------------------------------|---------------------|-------------------------|-----------------------------|----------------|
| <b>At 31 December 2009</b> | 16.9                              | (110.4)             | (6.9)                   | (3.9)                       | (104.3)        |
| Cash flows                 | (6.3)                             | 9.0                 | 0.6                     | -                           | 3.3            |
| Non cash movement          | -                                 | (0.4)               | (0.5)                   | 1.1                         | 0.2            |
| <b>At 30 December 2010</b> | 10.6                              | (101.8)             | (6.8)                   | (2.8)                       | (100.8)        |
| Cash flows                 | (5.1)                             | 6.8                 | 0.6                     | -                           | 2.3            |
| Non cash movement          | -                                 | (0.7)               | (0.5)                   | (1.7)                       | (2.9)          |
| <b>At 29 December 2011</b> | 5.5                               | (95.7)              | (6.7)                   | (4.5)                       | (101.4)        |

The non cash movements relating to bank loans represent the amortisation of debt issuance costs

## Notes to the Consolidated Financial Statements continued

### (Forming Part of the Financial Statements)

#### 17 Trade and Other Payables

|                              | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m |
|------------------------------|---------------------------|---------------------------|
| <b>Current</b>               |                           |                           |
| Trade payables               | 15.2                      | 12.3                      |
| Other payables               | 5.0                       | 5.5                       |
| Accruals and deferred income | 32.7                      | 29.7                      |
|                              | <b>52.9</b>               | <b>47.5</b>               |
| <b>Non-current</b>           |                           |                           |
| Accruals and deferred income | 53.3                      | 52.5                      |

Non-current accruals and deferred income include reverse-lease premiums and an accrual for straight lining operating leases

#### 18 Employee Benefits

##### Pension Plans

The Group operates two externally funded defined benefit pension schemes, one in the United Kingdom, the MGM Pension Scheme, and one in Ireland, the Adelphi-Carlton Limited Contributory Pension Plan

##### MGM Scheme

The Scheme is a funded Scheme of the defined benefit type, providing retirement benefits based on final salary. The Scheme closed to future accrual from 31 May 2009, though the link to final pay at retirement was retained.

The valuation used for IAS19 disclosures has been based on a full assessment of the liabilities of the Scheme as at 5 April 2009. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

Actuarial gains and losses have been recognised in the period in which they occur, (but outside the Income Statement), through Other Comprehensive Income.

Following the UK Government's announcement in summer 2010, and following the consultation with the members in October 2011, the inflation index to be used to derive statutory pension increases has been changed from the Retail Prices Index ("RPI") to the Consumer Prices Index ("CPI"). Due to differences between the indices, including both constituents and construction, CPI is expected to be less than RPI over the long-term which means that the Scheme liabilities will reduce. The £1.7m reduction in the value placed on the Scheme's liability is recognised as a negative past service cost in the Statement of Comprehensive Income. This is greater than the estimate of £0.9m mentioned in the 2010 Annual Report and Accounts, due to subsequent legal advice that additional tranches of pension would qualify for the change in indexation.

The Company made contributions of £1.6m during 2011 (2010: £1.6m).

##### Adelphi-Carlton Limited Contributory Pension Plan

The Adelphi-Carlton Limited Contributory Pension Plan is closed to new entrants and therefore the current service cost is £nil. The trustees of the Adelphi-Carlton Contributory Pension Plan have not agreed that any surplus on the plan can be refunded to the Company. Accordingly the surplus has not been recognised. The Scheme has a surplus of £0.6m as at 29 December 2011 (2010: £0.6m).

Actuaries for Adelphi-Carlton Limited carried out the last actuarial valuation of the scheme as at 1 April 2007. Based on this assessment, the actuarial value of the assets of the scheme was more than sufficient to cover 100% of the benefits that had accrued to members. In view of this, a suspension of Company contributions was in force from 1 April 2001 to 29 December 2011. Total contributions for the 52 weeks ended 30 December 2010 and 52 weeks ended 29 December 2011 were £nil and £nil, respectively.

The net surplus/(deficit) in the pension scheme is

|                              | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m |
|------------------------------|---------------------------|---------------------------|
| MGM Pension scheme           | 2.0                       | -                         |
| <b>Net surplus/(deficit)</b> | <b>2.0</b>                | <b>-</b>                  |

**18 Employee Benefits continued**  
**MGM Pension Scheme**

|                                                                                                                      | 29 December<br>2011<br>£m                            | 30 December<br>2010<br>£m                            |
|----------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Present value of funded defined benefit obligations                                                                  | (28.4)                                               | (28.3)                                               |
| Fair value of plan assets                                                                                            | 30.4                                                 | 28.3                                                 |
| <b>Surplus in scheme</b>                                                                                             | <b>2.0</b>                                           | <b>-</b>                                             |
| Movements in present value of defined benefit obligation                                                             |                                                      |                                                      |
|                                                                                                                      | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
| At beginning of period                                                                                               | (28.3)                                               | (26.6)                                               |
| Interest cost                                                                                                        | (1.4)                                                | (1.5)                                                |
| Current service cost                                                                                                 | -                                                    | -                                                    |
| Contributions by scheme participants                                                                                 | -                                                    | -                                                    |
| Actuarial loss                                                                                                       | (1.7)                                                | (1.4)                                                |
| Benefits paid                                                                                                        | 1.3                                                  | 1.2                                                  |
| Past service cost (RPI to CPI change)                                                                                | 1.7                                                  | -                                                    |
| <b>At end of period</b>                                                                                              | <b>(28.4)</b>                                        | <b>(28.3)</b>                                        |
| Movements in fair value of plan assets                                                                               |                                                      |                                                      |
|                                                                                                                      | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
| At start of period                                                                                                   | 28.3                                                 | 25.9                                                 |
| Expected return on plan assets                                                                                       | 1.5                                                  | 1.3                                                  |
| Actuarial gains                                                                                                      | 0.3                                                  | 0.7                                                  |
| Contributions by employer                                                                                            | 1.6                                                  | 1.6                                                  |
| Contributions by members                                                                                             | -                                                    | -                                                    |
| Benefits paid                                                                                                        | (1.3)                                                | (1.2)                                                |
| <b>At end of period</b>                                                                                              | <b>30.4</b>                                          | <b>28.3</b>                                          |
| Income/(expense) recognised in the consolidated statement of comprehensive income                                    |                                                      |                                                      |
|                                                                                                                      | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
| Interest on defined benefit pension plan obligation                                                                  | (1.4)                                                | (1.5)                                                |
| Expected return on defined benefit pension plan assets                                                               | 1.5                                                  | 1.3                                                  |
| Past service cost (RPI to CPI change)                                                                                | 1.7                                                  | -                                                    |
| <b>Total</b>                                                                                                         | <b>1.8</b>                                           | <b>(0.2)</b>                                         |
| The income/(expense) is recognised in the following line items in the consolidated statement of comprehensive income |                                                      |                                                      |
|                                                                                                                      | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
| Financial expenses                                                                                                   | (1.4)                                                | (1.5)                                                |
| Financial income                                                                                                     | 1.5                                                  | 1.3                                                  |
| Administrative expenses                                                                                              | 1.7                                                  | -                                                    |
| <b>Total</b>                                                                                                         | <b>1.8</b>                                           | <b>(0.2)</b>                                         |

## Notes to the Consolidated Financial Statements continued

### (Forming Part of the Financial Statements)

#### 18. Employee Benefits continued

Actuarial gains/(losses) recognised in the consolidated statement of comprehensive income

|                                                   | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
|---------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Actuarial (losses)/gains recognised in the period | (1.4)                                                | (0.7)                                                |
| Cumulative amount at start of period              | 0.3                                                  | 1.0                                                  |
| <b>Cumulative amount at end of period</b>         | <b>(1.1)</b>                                         | <b>0.3</b>                                           |

The fair value of the plan assets and the return on those assets were as follows

|                    | Long term<br>rate of return<br>expected at<br>29 December<br>2011 | 52 week<br>period ended<br>29 December<br>2011<br>£m | Long term<br>rate of return<br>expected at<br>30 December<br>2010 | 52 week<br>period ended<br>30 December<br>2010<br>£m |
|--------------------|-------------------------------------------------------------------|------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------|
| Equities           | 8.00%                                                             | 14.0                                                 | 7.70%                                                             | 13.5                                                 |
| Property           | 7.00%                                                             | 0.4                                                  | 7.20%                                                             | 0.4                                                  |
| Index linked bonds | 3.00%                                                             | 7.7                                                  | 4.00%                                                             | 7.1                                                  |
| Corporate bonds    | 4.50%                                                             | 6.8                                                  | 5.20%                                                             | 6.0                                                  |
| Other              | 1.80%                                                             | 1.5                                                  | 1.40%                                                             | 1.3                                                  |
|                    |                                                                   | <b>30.4</b>                                          |                                                                   | <b>28.3</b>                                          |

Cineworld Cinemas Limited employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Scheme at the accounting date.

|                                     | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m |
|-------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Expected return on scheme assets    | 1.5                                                  | 1.3                                                  |
| Actuarial gains                     | 0.3                                                  | 0.7                                                  |
| <b>Actual return on plan assets</b> | <b>1.8</b>                                           | <b>2.0</b>                                           |

Principal actuarial assumptions (expressed as weighted averages)

|                                                | 52 week<br>period ended<br>29 December<br>2011<br>% | 52 week<br>period ended<br>30 December<br>2010<br>% |
|------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| RPI Inflation                                  | 3.4                                                 | 3.8                                                 |
| CPI Inflation                                  | 2.4                                                 | 2.9                                                 |
| Rate of general long-term increase in salaries | 4.4                                                 | 4.8                                                 |
| Rate of increase to pensions in payment        | 2.0-3.4                                             | 2.6-3.9                                             |
| Discount rate for scheme liabilities           | 4.8                                                 | 5.4                                                 |
| Expected rate of return on assets              | 5.6                                                 | 6.0                                                 |

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retires in 2031 at age 65 will live on average for a further 24.5 years after retirement if they are male and for a further 26.4 years after retirement if they are female.

## 18 Employee Benefits continued

### History of Plans

The history of the plans for the current and prior periods is as follows

#### Balance Sheet

|                                             | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m | 53 week<br>period ended<br>31 December<br>2009<br>£m | 52 week<br>period ended<br>25 December<br>2008<br>£m | 52 week<br>period ended<br>27 December<br>2007<br>£m |
|---------------------------------------------|------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Present value of defined benefit obligation | (28.4)                                               | (28.3)                                               | (26.6)                                               | (24.4)                                               | (26.6)                                               |
| Fair value of plan assets                   | 30.4                                                 | 28.3                                                 | 25.9                                                 | 21.8                                                 | 24.2                                                 |
| <b>Surplus/(deficit)</b>                    | <b>2.0</b>                                           | <b>-</b>                                             | <b>(0.7)</b>                                         | <b>(2.6)</b>                                         | <b>(2.4)</b>                                         |

#### Experience Adjustments

|                                            | 52 week<br>period ended<br>29 December<br>2011<br>£m | 52 week<br>period ended<br>30 December<br>2010<br>£m | 53 week<br>period ended<br>31 December<br>2009<br>£m | 52 week<br>period ended<br>25 December<br>2008<br>£m | 52 week<br>period ended<br>27 December<br>2007<br>£m |
|--------------------------------------------|------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Experience gain/(loss) on plan assets      | 0.3                                                  | 0.7                                                  | 2.5                                                  | (4.4)                                                | 0.3                                                  |
| Experience gain/(loss) on plan liabilities | -                                                    | 0.2                                                  | 2.7                                                  | -                                                    | -                                                    |

The Group expects to contribute approximately £1.6m to its defined benefit plans in the next financial period

#### Defined Contribution Plans

The Group operates a number of defined contribution pension plans

The total expense relating to these plans in the current year was £0.4m (2010 £0.4m)

#### Share-Based Payments

As at 29 December 2011 there were three types of share option and share schemes: the Employee Sharesave Scheme, the Cineworld Group Performance Share Plan and the Company Share Option Plan

Grants were made under the sharesave scheme in 2007 and 2008

The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the options

#### Period ended 30 December 2010

A charge of £30,000 was recorded in the income statement for the period in respect of both the 2007 and 2008 Sharesave scheme grants

#### Period ended 29 December 2011

A charge of £28,000 was recorded in the income statement for the period in respect of the 2008 Sharesave scheme grant

Awards over 30,496 shares lapsed in 2011

#### The Cineworld Group Performance Share Plan ("PSP")

##### Period ended 30 December 2010

Under the PSP, awards of conditional shares or nil cost options can be made that vest or become exercisable after three years subject to continued employment and generally the achievement of specified performance conditions as follows

- 30% of the shares under the award will vest if the average annual growth in earnings per share ("EPS") (calculated by comparing the EPS for the financial year ended 31 December 2009 and the EPS for the financial year ending 27 December 2012) is not less than 3.2%,
- 100% of the shares under the Award will vest if the average annual growth in EPS (calculated by comparing the EPS for the financial year ended 31 December 2009 and the EPS for the financial year ending 27 December 2012) is at least 9.2%,
- Where the average annual growth in EPS (calculated by comparing the EPS for the financial year ended 31 December 2009 and the EPS for the financial year ending 27 December 2012) is between the two limits above, the Award shall vest on a straight-line basis between 30% and 100%

## Notes to the Consolidated Financial Statements continued

### (Forming Part of the Financial Statements)

#### 18 Employee Benefits continued

Grants were made under the PSP scheme on 30 March 2010. Under these grants, awards over 252,654 shares were made in total. Awards over 173,832 shares were made with the same performance conditions as the 2009 grant, but with reference to the financial years 30 December 2010 to 26 December 2013. Further awards over 78,822 shares were made which will vest after three years subject to continued employment only, with no specified performance conditions attached.

EPS for the 2010 grant was defined as adjusted pro-forma diluted earnings per share as calculated in Note 5 to the financial statements.

#### Period ended 29 December 2011

Further grants were made under the PSP scheme on 29 March 2011. Under these grants, awards over 395,961 shares were made in total. Awards over 258,398 shares were made with the same performance conditions as the 2010 grant, but with reference to the financial years 30 December 2010 to 26 December 2013. Further awards over 137,563 shares were made which will vest after three years subject to continued employment only, with no specified performance conditions attached.

Awards over 167,350 shares lapsed during 2011.

EPS for the 2011 grant was defined as adjusted pro-forma diluted earnings per share as calculated in Note 5 to the financial statements.

A charge of £559,000 was recorded in the income statement in respect of the 2008, 2009, 2010 and 2011 PSP schemes.

#### The Company Share Option Plan ("CSOP")

##### Period ended 30 December 2010

The first two grants under the CSOP took place on 1 July 2010. Under these grants awards over 75,750 shares were made in total. Awards over 10,100 shares were made with the same conditions as the 2010 PSP grant. Awards over 65,650 shares were made with no performance conditions attached.

EPS for the 2010 grant was defined as adjusted pro forma diluted earnings per share as calculated in Note 5 to the financial statements.

The shares were valued using the Black Scholes Model. A charge of £6,000 was recorded in the income statement in respect of shares granted under the CSOP.

##### Period ended 29 December 2011

Further grants were made under the CSOP on 29 March 2011. Under these grants awards over 76,816 shares were made in total. Awards over 9,602 shares were made with the same conditions as the 2011 PSP grant. Awards over 67,214 were made with no performance conditions attached.

Awards over 9,851 shares lapsed during 2011.

EPS for the 2011 grant was defined as adjusted pro forma diluted earnings per share as calculated in Note 5 to the financial statements.

A charge of £19,000 was recorded in the income statement in respect of the 2010 and 2011 CSOP schemes.

The number and weighted average exercise prices of share options in equity settled schemes are as follows:

|                                          | Weighted average<br>exercise price<br>2011 (£)<br>Equity settled | Number<br>of options<br>2011<br>Equity settled | Weighted average<br>exercise price<br>2010 (£)<br>Equity settled | Number<br>of options<br>2010<br>Equity settled |
|------------------------------------------|------------------------------------------------------------------|------------------------------------------------|------------------------------------------------------------------|------------------------------------------------|
| Outstanding at the beginning of the year | 0.40                                                             | 1,605,515                                      | 0.44                                                             | 1,378,886                                      |
| Exercised in shares during the year      | 0.62                                                             | (607,096)                                      | 1.63                                                             | (20,088)                                       |
| Settled in cash during the year          | 0.00                                                             | (169,856)                                      | —                                                                | —                                              |
| Granted during the year                  | 0.35                                                             | 472,777                                        | 0.46                                                             | 328,404                                        |
| Lapsed during the year                   | 0.27                                                             | (207,697)                                      | 1.13                                                             | (81,687)                                       |
| Outstanding at the end of the year       | 0.33                                                             | 1,093,643                                      | 0.40                                                             | 1,605,515                                      |
| Exercisable at the end of the year       | 0.93                                                             | 68,946                                         | 1.63                                                             | 32,880                                         |

The average share price during 2011 was £2.00 (2010: £1.92).

### 18 Employee Benefits continued

Assumptions relating to grants of share options in 2010 were.

| Scheme name | Date of grant | Share price at grant (£) | Exercise price (£) | Expected volatility (%) | Expected life (years) | Dividend yield (%) | Risk free rate (%) | Fair value (£) |
|-------------|---------------|--------------------------|--------------------|-------------------------|-----------------------|--------------------|--------------------|----------------|
| PSP         | 30 March 2010 | 1.85                     | nil                | 49                      | 3.0                   | 5.5                | 0.76               | 1.52           |
| CSOP        | 1 July 2010   | 1.98                     | 1.98               | 49                      | 3–10 years            | 5.5                | 0.76               | 0.44           |

Assumptions relating to grants of share options in 2011 were

| Scheme name | Date of grant | Share price at grant (£) | Exercise price (£) | Expected volatility (%) | Expected life (years) | Dividend yield (%) | Risk free rate (%) | Fair value (£) |
|-------------|---------------|--------------------------|--------------------|-------------------------|-----------------------|--------------------|--------------------|----------------|
| PSP         | 29 March 2011 | 2.08                     | nil                | 46                      | 3.0                   | 5.3                | 1.08               | 1.77           |
| CSOP        | 29 March 2011 | 2.08                     | 2.08               | 46                      | 3–10 years            | 5.3                | 1.08               | 0.47           |

The total expenses recognised for the period arising from share-based payments are as follows

|                                      | 52 week period ended 29 December 2011<br>£m | 52 week period ended 30 December 2010<br>£m |
|--------------------------------------|---------------------------------------------|---------------------------------------------|
| <b>Share-based payments expenses</b> | <b>0.6</b>                                  | <b>0.5</b>                                  |

### 19 Provisions

|                                                     | Property provisions<br>£m | Reorganisation provision | Total provisions<br>£m |
|-----------------------------------------------------|---------------------------|--------------------------|------------------------|
| Balance at 30 December 2010                         | 11.9                      | –                        | 11.9                   |
| Non current                                         | 9.6                       | –                        | 9.6                    |
| Current                                             | 2.3                       | –                        | 2.3                    |
| <b>Total</b>                                        | <b>11.9</b>               | <b>–</b>                 | <b>11.9</b>            |
| Balance at 30 December 2010                         | 11.9                      | –                        | 11.9                   |
| Provisions (released)/made during the period        | (1.0)                     | 1.4                      | 0.4                    |
| Effect of change in discount rate during the period | 0.6                       | –                        | 0.6                    |
| Utilised against rent during the period             | (2.5)                     | –                        | (2.5)                  |
| Unwound against interest during the period          | 1.2                       | –                        | 1.2                    |
| <b>Balance at 29 December 2011</b>                  | <b>10.2</b>               | <b>1.4</b>               | <b>11.6</b>            |
| Current                                             | 0.9                       | 1.4                      | 2.3                    |
| Non-current                                         | 9.3                       | –                        | 9.3                    |
| <b>Total</b>                                        | <b>10.2</b>               | <b>1.4</b>               | <b>11.6</b>            |

Property provisions relate to onerous leases, dilapidations and other property liabilities. The majority of the property provision relates to onerous leases being the rent payable on particular cinema sites that is in excess of the economic benefits expected to be derived from their operation on a discounted basis. The remaining provision will be utilised over the period to the next rent review date or the remaining lease life depending on the term of the lease. This is between one and thirty years (see further analysis below). The discount rate used in the period was 9.0% (2010: 9.5%). The reorganisation provision relates to the digital conversion and harmonising audio/visual work across the whole circuit.

|                                                               | 29 December 2011<br>£m | 30 December 2010<br>£m |
|---------------------------------------------------------------|------------------------|------------------------|
| <b>Expected timing for utilisation of property provisions</b> |                        |                        |
| Analysed as                                                   |                        |                        |
| Within one year                                               | 0.9                    | 2.3                    |
| Between one and two years                                     | 0.8                    | 1.1                    |
| In the second to fifth years                                  | 2.9                    | 2.5                    |
| Over five years                                               | 5.6                    | 6.0                    |
|                                                               | <b>10.2</b>            | <b>11.9</b>            |

## Notes to the Consolidated Financial Statements continued

### (Forming Part of the Financial Statements)

#### 20 Capital and Reserves

##### Share Capital

|                                                              | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m |
|--------------------------------------------------------------|---------------------------|---------------------------|
| <b>Cineworld Group plc</b>                                   |                           |                           |
| <i>Allotted, called up and fully paid</i>                    |                           |                           |
| 142,348,693 (2010 141,741,597) ordinary shares of £0.01 each | 1.4                       | 1.4                       |

During the year a total of 607,096 ordinary shares of nominal value £0.01 were issued, of which 221,099 ordinary shares were part of the performance share plan and 385,997 (2010 20,088) were part of the employee sharesave scheme. Consideration of £379,000 (2010 £32,000) was received.

##### Translation Reserve

The translation reserve comprises all foreign exchange 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.

##### Hedging Reserve

The hedging reserve comprises the liability in relation to the interest rate swap entered into, to hedge against variable interest payments on £65m (2010 £51.0m) of the total £97m (2010 £102m) of bank debt. As hedge accounting has been adopted the gains/losses are recorded through equity until such time as the cash flows being hedged occur, when they are recycled to the income statement.

##### Dividends

The following dividends were recognised during the period:

|                                  | 2011<br>£m  | 2010<br>£m  |
|----------------------------------|-------------|-------------|
| Interim                          | 5.1         | 4.8         |
| Final (for the preceding period) | 10.1        | 9.7         |
|                                  | <b>15.2</b> | <b>14.5</b> |

An interim dividend of 3.6p per share was paid on 7 October 2011 to ordinary shareholders (2010 3.4p). The Board has proposed a final dividend of 7.4p per share, which will result in total cash payable of approximately £10.5m on 5 July 2012 (2010 7.1p per share, total final dividend £10.1m). In accordance with IAS10 this had not been recognised as a liability at 29 December 2011.

#### 21 Financial Instruments

##### Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of certain risk management controls and procedures, the results of which are reported to the Audit Committee.

##### 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.

**21. Financial Instruments continued**

The Group's credit risk is primarily attributable to its trade receivables. However, due to the nature of the Group's business, trade receivables are not significant which limits the related credit risk. The Group's trade receivables are disclosed in Note 15. Of the total balance of £1.8m (2010 £2.4m) due 68% (2010 81%) are within credit terms. A further 13% (2010 8%) outside credit terms cleared after the period end, and before signing of the financial statements. The bad debt provision as at 2011 is £11,000 (2010 £nil), with a bad debt expense in the period of £11,000 (2010 £nil). Based on past experience the Group believes that no additional impairment allowance is necessary in respect of the trade receivables that are past due. In 2011 the amount of trade receivables past due but unimpaired is £0.6m (2010 £0.2m). The credit risk on liquid funds and derivative financial instruments is also limited because the counterparties are banks with high credit-ratings.

**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.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements. The amounts disclosed in the table are contractual undiscounted cash flows, including interest payments calculated using interest rates in force at each balance sheet date, so will not always reconcile with the amounts disclosed on the balance sheet.

**29 December 2011**

|                                             | Carrying<br>amount<br>£m | Contractual<br>cash flows<br>£m | 6 mths<br>or less<br>£m | 6-12<br>months<br>£m | 1-2<br>years<br>£m | 2-5<br>years<br>£m | More than<br>5 years<br>£m |
|---------------------------------------------|--------------------------|---------------------------------|-------------------------|----------------------|--------------------|--------------------|----------------------------|
| <b>Non-derivative financial liabilities</b> |                          |                                 |                         |                      |                    |                    |                            |
| Unsecured bank loans                        | 95.7                     | (106.4)                         | (3.7)                   | (3.7)                | (7.3)              | (24.7)             | (67.0)                     |
| Finance lease liabilities                   | 6.7                      | (12.2)                          | (0.3)                   | (0.3)                | (0.6)              | (1.9)              | (9.1)                      |
| Trade and other payables                    | 15.2                     | (15.2)                          | (15.2)                  | —                    | —                  | —                  | —                          |
| <b>Derivative financial liabilities</b>     |                          |                                 |                         |                      |                    |                    |                            |
| Interest rate swap 1                        | 0.7                      | (0.7)                           | (0.7)                   | —                    | —                  | —                  | —                          |
| Interest rate swap 2                        | 1.9                      | (2.1)                           | (0.2)                   | (0.3)                | (0.5)              | (1.1)              | —                          |
| Interest rate swap 3                        | 1.9                      | (2.1)                           | (0.2)                   | (0.3)                | (0.5)              | (1.1)              | —                          |
|                                             | <b>122.1</b>             | <b>(138.7)</b>                  | <b>(20.3)</b>           | <b>(4.6)</b>         | <b>(8.9)</b>       | <b>(28.8)</b>      | <b>(76.1)</b>              |

On 31 March 2011, the Group refinanced its existing debt. The new five year facility consists of a £70m term loan with repayments of £2.5m every six months commencing June 2011 and a revolving facility of £100m. As at the period end, £65m of the term loan plus £32m of the revolving facility were drawn down.

The Group considered its hedging strategy at the time of the refinancing and concluded that it was not economic to close out the existing swap, which at 31 March 2011, was in a liability position of £2.2m. In addition, it took out two new interest rate swaps to hedge the remainder of the £70m term loan. In accordance with IFRS, the existing swap was re-assessed to establish whether it still met the criteria for hedge accounting. It did not meet the criteria and as a result, its fair value on 31 March 2011 of £2.2m was recycled to the income statement as an exceptional finance expense. At the 30 December 2011 the hedge was found to be ineffective therefore it has not been possible to hedge account for this swap and a gain of £1.1m has been recognised in the income statement in respect of the mark to market movement since it was last shown to be effective.

At the point of refinancing, the Group assessed whether the previous loan should be derecognised under IAS39. It was concluded that there was no substantial modification of terms, therefore it was not appropriate to extinguish the old debt instrument.

The unsecured bank loan is subject to two covenants: the ratio of EBITDA to net debt and the ratio of EBITDAR (pre-rent EBITDA) to net finance charges.

**30 December 2010**

|                                             | Carrying<br>amount<br>£m | Contractual<br>cash flows<br>£m | 6 mths<br>or less<br>£m | 6-12<br>months<br>£m | 1-2<br>years<br>£m | 2-5<br>years<br>£m | More than<br>5 years<br>£m |
|---------------------------------------------|--------------------------|---------------------------------|-------------------------|----------------------|--------------------|--------------------|----------------------------|
| <b>Non-derivative financial liabilities</b> |                          |                                 |                         |                      |                    |                    |                            |
| Unsecured bank loans                        | 101.8                    | (103.9)                         | (5.3)                   | (5.2)                | (93.4)             | —                  | —                          |
| Finance lease liabilities                   | 6.8                      | (12.8)                          | (0.3)                   | (0.3)                | (0.6)              | (1.8)              | (9.8)                      |
| Trade and other payables                    | 12.3                     | (12.3)                          | (12.3)                  | —                    | —                  | —                  | —                          |
| <b>Derivative financial liabilities</b>     |                          |                                 |                         |                      |                    |                    |                            |
| Interest rate swaps used for hedging        | 2.8                      | (3.1)                           | (1.2)                   | (1.2)                | (0.7)              | —                  | —                          |
|                                             | <b>123.7</b>             | <b>(132.1)</b>                  | <b>(19.1)</b>           | <b>(6.7)</b>         | <b>(94.7)</b>      | <b>(1.8)</b>       | <b>(9.8)</b>               |

## Notes to the Consolidated Financial Statements continued

### (Forming Part of the Financial Statements)

#### 21. Financial Instruments continued

##### Cash Flow Hedges

The following table indicates the periods in which the discounted cash flows associated with derivatives that are cash flow hedges are expected to occur

#### 29 December 2011

|                     | Carrying<br>amount<br>£m | Expected<br>cash flows<br>£m | 6 months<br>or less<br>£m | 6-12<br>months<br>£m | 1-2<br>years<br>£m | 2-5<br>years<br>£m | More than<br>5 years<br>£m |
|---------------------|--------------------------|------------------------------|---------------------------|----------------------|--------------------|--------------------|----------------------------|
| Interest rate swaps |                          |                              |                           |                      |                    |                    |                            |
| Swap 1              | (0.7)                    | (0.7)                        | (0.7)                     | —                    | —                  | —                  | —                          |
| Swap 2              | (1.9)                    | (1.9)                        | (0.2)                     | (0.3)                | (0.5)              | (0.9)              | —                          |
| Swap 3              | (1.9)                    | (1.9)                        | (0.2)                     | (0.3)                | (0.5)              | (0.9)              | —                          |
|                     | <b>(4.5)</b>             | <b>(4.5)</b>                 | <b>(1.1)</b>              | <b>(0.6)</b>         | <b>(1.0)</b>       | <b>(1.8)</b>       | <b>—</b>                   |

#### 30 December 2010

|                     | Carrying<br>amount<br>£m | Expected<br>cash flows<br>£m | 6 mths<br>or less<br>£m | 6-12<br>months<br>£m | 1-2<br>years<br>£m | 2-5<br>years<br>£m | More than<br>5 years<br>£m |
|---------------------|--------------------------|------------------------------|-------------------------|----------------------|--------------------|--------------------|----------------------------|
| Interest rate swaps |                          |                              |                         |                      |                    |                    |                            |
| Liabilities         | (2.8)                    | (2.8)                        | (1.2)                   | (1.1)                | (0.5)              | —                  | —                          |

It is expected that the expected cash flows will impact profit and loss when the cash flows occur

#### 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 on risk.

#### Foreign Currency Risk

The majority of the Group's operations are in the United Kingdom and hence for these operations there is no exposure to foreign currency risk other than in respect of certain purchases that may be denominated in currencies other than sterling. In addition there is an operation in Ireland where non-sterling revenues, purchases, financial assets and liabilities and cash flows can be affected by movements in Euro rates. However, the exposure is limited as euro operations are not significant. A 10% increase/(decrease) in the value of €1 against sterling would increase/decrease the profit before tax for 2011 by approximately £42,000 (2010 £23,000). A 10% increase/(decrease) in the value of €1 against sterling would increase/decrease equity in 2011 by approximately £5,000 (2010 £27,000).

#### Interest Rate Risk

The Group's policy is to manage its cost of borrowing by securing fixed interest rates on a portion of its term loan.

Whilst fixed-rate interest-bearing debt is not exposed to cash flow interest rate risk, there is no opportunity for the Group to enjoy a reduction in borrowing costs in markets where rates are falling.

In addition, the fair value risk inherent in fixed rate borrowing means that the Group is exposed to unplanned costs should debt be restructured or repaid early as part of the liquidity management process.

The Group uses interest rate swaps agreed with other parties to hedge a portion of its bank loans that have variable interest rates. Interest rate swaps are measured at fair value, which have been calculated by discounting the expected future cash flows at prevailing interest rates.

At the period end the Group had three interest rate swaps which hedged 100% (2010 50%) of the Group's variable rate unsecured term loan. The revolver loan, which was £32m at the end of the period, is not hedged. As a result, there is no impact on the income statement relating to the hedged bank debt as a result of any changes in interest rates.

## 21 Financial Instruments continued

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was

|                                                                 | Carrying amount |               |
|-----------------------------------------------------------------|-----------------|---------------|
|                                                                 | 2011            | 2010          |
| <b>Fixed rates Instruments</b>                                  |                 |               |
| Financial liabilities (interest rate swap)                      | (4.5)           | (2.8)         |
| Financial liabilities (unsecured bank loans – hedged portion)   | (65.0)          | (51.0)        |
|                                                                 | <b>(69.5)</b>   | <b>(53.8)</b> |
| <b>Variable rate Instruments</b>                                |                 |               |
| Financial liabilities (unsecured bank loans – unhedged portion) | <b>(32.0)</b>   | <b>(51.0)</b> |

£65m (2010 £51.0m) of the variable rate financial liability is hedged via the interest rate swap with the balance attracting a variable interest rate. In 2011, the balance is the revolving facility.

### Fair Value Sensitivity Analysis for Fixed Rate Instruments

The Group accounts for fixed rate derivative financial instruments (interest rate swaps) at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement except where derivatives qualify for hedge accounting when recognition of any resultant gain or loss depends on the nature of the item being hedged. Hedge accounting was adopted from the year ended 27 December 2007 on the swap taken out in May 2007.

For the two new swaps taken out this year, a change of 100 basis points in interest rates would have increased equity by £1m or decreased equity by £1m for each swap and would have increased or decreased profit or loss by £nil (2010 £nil). For the pre-existing swap, a change of 100 basis points in interest rates would have increased equity by £nil or decreased equity by £nil (2010 increase £0.5m, decrease £0.5m) and would have increased or decreased profit or loss by £0.1m (2010 £nil).

### Cash Flow Sensitivity Analysis for Variable Rate Instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

| Effect in GBP thousands     | Profit or loss  |                 | Equity          |                 |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
|                             | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| <b>29 December 2011</b>     |                 |                 |                 |                 |
| Variable rate instruments   | (1,005)         | 1,005           | (1,005)         | 1,005           |
| Interest rate swap          | 638             | (638)           | 638             | (638)           |
| Cash flow sensitivity (net) | <b>(367)</b>    | <b>367</b>      | <b>(367)</b>    | <b>367</b>      |
| <b>30 December 2010</b>     |                 |                 |                 |                 |
| Variable rate instruments   | (1,087)         | 1,087           | (1,087)         | 1,087           |
| Interest rate swap          | 543             | (543)           | 543             | (543)           |
| Cash flow sensitivity (net) | <b>(544)</b>    | <b>544</b>      | <b>(544)</b>    | <b>544</b>      |

### Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements.

Short-term debtors, creditors and cash and cash equivalents have been excluded from the following disclosures on the basis that their carrying amount is a reasonable approximation to fair value.

|                           | Carrying amount<br>29 December<br>2011<br>£m | Fair value<br>29 December<br>2011<br>£m | Carrying amount<br>30 December<br>2010<br>£m | Fair value<br>30 December<br>2010<br>£m |
|---------------------------|----------------------------------------------|-----------------------------------------|----------------------------------------------|-----------------------------------------|
| Unsecured bank loans      | 95.7                                         | 89.0                                    | 101.8                                        | 99.3                                    |
| Finance lease liabilities | 6.7                                          | 6.7                                     | 6.8                                          | 6.8                                     |
| Interest rate swaps       | 4.5                                          | 4.5                                     | 2.8                                          | 2.8                                     |
|                           | <b>106.9</b>                                 | <b>100.2</b>                            | <b>111.4</b>                                 | <b>108.9</b>                            |

## Notes to the Consolidated Financial Statements continued

### (Forming Part of the Financial Statements)

#### 21. Financial Instruments continued

The fair value of derivatives and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The carrying amount of unsecured bank loans is stated net of debt issuance costs and the fair value is stated gross of debt issuance costs and is calculated using the market interest rates.

The difference between net carrying amount and estimated fair value reflects unrealised gains or losses inherent in the instruments based on valuations at 29 December 2011 and 30 December 2010. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

#### 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 assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices),
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

|                                  | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | Total<br>£m |
|----------------------------------|---------------|---------------|---------------|-------------|
| <b>29 December 2011</b>          |               |               |               |             |
| Derivative financial instruments | –             | 4.5           | –             | 4.5         |
| <b>30 December 2010</b>          |               |               |               |             |
| Derivative financial instruments | –             | 2.8           | –             | 2.8         |

There have been no transfers between levels in 2009. No other financial instruments are held at fair value.

#### Capital Management

The capital structure of the Group consists of the following items:

|                                                     | 2011<br>£m   | 2010<br>£m   |
|-----------------------------------------------------|--------------|--------------|
| Cash and cash equivalents                           | 5.5          | 10.6         |
| Loan notes outstanding                              | 95.7         | 101.8        |
| Equity attributable to equity holders of the parent | 192.3        | 191.2        |
|                                                     | <b>293.5</b> | <b>303.6</b> |

The Board of Directors constantly monitor the ongoing capital requirements of the business and have reviewed the current gearing ratio, being the ratio of bank debt to equity and consider it appropriate for the Group's current circumstances. Ratios used in the monitoring of debt capital include the ratio of EBITDA to net debt and the ratio of EBITDAR (pre rent EBITDA) to net finance charges.

The Group's objective when managing capital is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business, to provide returns for shareholders and to optimise the capital structure to reduce the cost of capital. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity and the level of dividends to ordinary shareholders.

#### 22. Operating Leases

Non-cancellable operating lease rentals commitments are as follows:

|                            | Land and<br>buildings<br>£m | Other<br>£m | 29 December<br>2011<br>£m | Land and<br>buildings<br>£m | Other<br>£m | 30 December<br>2010<br>£m |
|----------------------------|-----------------------------|-------------|---------------------------|-----------------------------|-------------|---------------------------|
| Less than one year         | 51.6                        | 0.3         | 51.9                      | 50.8                        | 0.4         | 51.2                      |
| Between one and five years | 207.2                       | 1.2         | 208.4                     | 210.6                       | 1.6         | 212.2                     |
| More than five years       | 789.0                       | –           | 789.0                     | 875.4                       | –           | 875.4                     |
|                            | <b>1,047.8</b>              | <b>1.5</b>  | <b>1,049.3</b>            | <b>1,136.8</b>              | <b>2.0</b>  | <b>1,138.8</b>            |

### 23 Capital Commitments

Capital commitments at the end of the financial period for which no provision has been made

|            | 29 December<br>2011<br>£m | 30 December<br>2010<br>£m |
|------------|---------------------------|---------------------------|
| Contracted | 2.8                       | –                         |

Between the end of the financial period and the signing of the financial statements, capital commitments of £3.5m were made relating to digital projection equipment. In the prior year capital commitments were made consisting of £6.2m of digital projection equipment and £2.3m relating to new sites.

### 24 Related Parties

The compensation of the Directors and key management personnel is as follows:

|                                                               | Salary<br>and fees<br>including bonus<br>£000 | Compensation<br>for loss<br>of office<br>£000 | Pension<br>contributions<br>£000 | Total<br>£000 |
|---------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|----------------------------------|---------------|
| <b>52 weeks ended 29 December 2011</b>                        |                                               |                                               |                                  |               |
| Total compensation for Directors                              | 1,375                                         | 342                                           | 115                              | 1,832         |
|                                                               | Salary<br>and fees<br>including bonus<br>£000 | Compensation<br>for loss<br>of office<br>£000 | Pension<br>contributions<br>£000 | Total<br>£000 |
| <b>52 weeks ended 30 December 2010</b>                        |                                               |                                               |                                  |               |
| Total compensation for Directors and key management personnel | 1,708                                         | –                                             | 142                              | 1,850         |

Key management personnel consisted of the Senior Vice President of Construction up until his retirement on 30 June 2010.

Alan Roux and Matthew Tooth were originally appointed by the Blackstone Group and their respective Directors' fees of £nil and £12,000 (2010: £28,875 and £33,000) were payable to the Blackstone Group. Following the sale by the Blackstone Group of its shareholding in the Company on 18 November 2010, Alan Roux stepped down from the Board, however, Matthew Tooth remained a Director in an independent capacity, although his Director's fees continued to be paid to the Blackstone Group. He subsequently resigned as a Director on 11 May 2011. No compensation was paid in respect of his departure.

Share based compensation benefit charges for key management personnel (including Directors) was £0.2m in 2011 (2010: £0.3m).

### Other Related Party Transactions

Digital Cinema Media Limited ("DCM") is a joint venture between the Group and Odeon Cinemas Holdings Limited set up on 10 July 2008. Revenue receivable from DCM in the 52 week period ending 29 December 2011 totalled £13.6m (2010: £13.8m) and as at 29 December 2011 £1.3m (2010: £2.0m) was due from DCM in respect of receivables. In addition the Group has a working capital loan outstanding from DCM of £0.5m (2010: £0.5m).

## Company Balance Sheet

### at 29 December 2011

|                                                     | Note | 29 December<br>2011<br>£000 | 29 December<br>2011<br>£000 | 30 December<br>2010<br>£000 | 30 December<br>2010<br>£000 |
|-----------------------------------------------------|------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>Fixed assets</b>                                 |      |                             |                             |                             |                             |
| Investments                                         | 27   |                             | <b>132,471</b>              |                             | 132,313                     |
| <b>Current assets</b>                               |      |                             |                             |                             |                             |
| Debtors                                             | 28   | <b>141,667</b>              |                             | 123,667                     |                             |
| Cash at bank                                        |      | <b>38</b>                   |                             | 53                          |                             |
|                                                     |      | <b>141,705</b>              |                             | 123,720                     |                             |
| <b>Creditors amount falling due within one year</b> | 29   | <b>(81,842)</b>             |                             | (64,823)                    |                             |
| <b>Net current assets</b>                           |      |                             | <b>59,863</b>               |                             | 58,897                      |
| <b>Net assets</b>                                   |      |                             | <b>192,334</b>              |                             | 191,210                     |
| <b>Capital and reserves</b>                         |      |                             |                             |                             |                             |
| Called up share capital                             | 30   |                             | <b>1,423</b>                |                             | 1,417                       |
| Share premium account                               | 30   |                             | <b>171,761</b>              |                             | 171,386                     |
| Profit and loss account                             | 30   |                             | <b>19,150</b>               |                             | 18,407                      |
| <b>Shareholders' funds – equity</b>                 |      |                             | <b>192,334</b>              |                             | 191,210                     |

These financial statements were approved by the Board of Directors on 8 March 2012 and were signed on its behalf by

**Stephen Wiener**  
Director

**Philip Bowcock**  
Director

## Company Reconciliation of Movements in Shareholders' Funds

### for the Period Ended 29 December 2011

|                                            | Note | 52 week<br>period ended<br>29 December<br>2011<br>£000 | 52 week<br>period ended<br>30 December<br>2010<br>£000 |
|--------------------------------------------|------|--------------------------------------------------------|--------------------------------------------------------|
| Profit for the period                      |      | <b>15,778</b>                                          | 16,862                                                 |
| Dividends paid during the period           | 30   | <b>(15,193)</b>                                        | (14,456)                                               |
| Movements due to share-based compensation  | 30   | <b>158</b>                                             | 515                                                    |
| Equity instruments issued                  |      | <b>381</b>                                             | 32                                                     |
| <b>Net increase in shareholders' funds</b> |      | <b>1,124</b>                                           | 2,953                                                  |
| Opening shareholders' funds                |      | <b>191,210</b>                                         | 188,257                                                |
| <b>Closing shareholders' funds</b>         |      | <b>192,334</b>                                         | 191,210                                                |

## Notes to the Company Financial Statements

### 25 Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

#### Basis of Preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

Information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Chief Executive and Chief Financial Officers' Report on pages 14 to 21 and the Risks and Uncertainties section on pages 24 and 25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive and Chief Financial Officers' Report on pages 14 to 21. In addition Note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk

As highlighted in Note 16 to the financial statements, the Group meets its day to day working capital requirements through its bank facilities which consist of a five year facility of £170m, which comprises of a £70m term loan and £100m revolving facility. As at the period end, £65m of the term loan plus £32m of the revolving facility were drawn down. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's products, and (b) the availability of bank finance in the foreseeable future

The current bank facility is subject to two covenants: the ratio of EBITDA to net debt and the ratio of EBITDAR (pre-rent EBITDA) to net finance charges. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility, including compliance with the bank facility covenants

Since the end of the period the Group has received commitments from a group of banks for a new five year facility of £170m to replace its existing facility which is due to expire in May 2012. The new facility will provide the Group with more flexibility to finance future expansion plans as well as other growth opportunities. Documentation is being drafted between the Group and the participating banks and all parties are working to complete the process in the near future

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its cash flows are included within the consolidated financial statements of Cineworld Group plc

The Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Cineworld Group where the Group controls 100% of the voting rights

#### Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less provision for any impairment in value

#### Impairment

The Group evaluates its investments for financial impairment where events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. When such evaluations indicate that the carrying value of an asset exceeds its recoverable value, an impairment in value is recorded

#### Deferred Taxation

The charge for taxation based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

#### Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

**25. Accounting Policies continued**

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

**Share-Based Payment Transactions**

The share options programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an addition to fixed asset investments with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an evaluation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of shares options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Shares appreciation rights are also granted by the Company to employees. The fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value of the share appreciation rights is measured based on an option valuation model, taking into account the terms and conditions upon which the instruments were granted. The liability is remeasured at each balance sheet date and at settlement date and any changes in fair value recognised in profit and loss spread equally over the vesting period.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity. Amounts recharged to or reimbursed by the subsidiary are recognised as a reduction in the cost of investment in subsidiary.

**Own Shares Held by Employee Benefit Trust ("EBT")**

Transactions of the Group sponsored EBT are included in the Group financial information. In particular, the trust's purchase of shares in the Company are debited directly to equity.

**26 Staff Numbers and Costs**

The Company has no employees. Non-Executive Directors' salaries are recharged to the Company from its subsidiary Cineworld Cinemas Ltd. Total salaries paid to Non-Executive Directors were £379,000 (2010: £340,000). See pages 48 to 49 for details of directors' emoluments.

**27 Fixed Asset Investments**

| Company                            | Shares in<br>Group<br>undertakings<br>£000 |
|------------------------------------|--------------------------------------------|
| <b>Balance at 30 December 2010</b> | <b>132,313</b>                             |
| Additions                          | 158                                        |
| <b>Balance at 29 December 2011</b> | <b>132,471</b>                             |
| <b>Net book value</b>              |                                            |
| At 30 December 2010                | 132,313                                    |
| <b>At 29 December 2011</b>         | <b>132,471</b>                             |

For details of £158,000 addition to investment see Note 30

## Notes to the Company Financial Statements continued

### 27 Fixed Asset Investments continued

|                                                       | Country of incorporation | Principal activity                   | Class    | % of shares held |
|-------------------------------------------------------|--------------------------|--------------------------------------|----------|------------------|
| <b>Subsidiary undertakings</b>                        |                          |                                      |          |                  |
| <i>Directly Held</i>                                  |                          |                                      |          |                  |
| Augustus 1 Limited                                    | England and Wales        | Holding company                      | Ordinary | 100              |
| <i>Indirectly Held</i>                                |                          |                                      |          |                  |
| Augustus 2 Limited                                    | England and Wales        | Holding company                      | Ordinary | 100              |
| Cineworld Holdings Limited                            | England and Wales        | Holding company                      | Ordinary | 100              |
| Cine-UK Limited                                       | England and Wales        | Cinema operation                     | Ordinary | 100              |
| Cineworld Cinemas Holdings Limited                    | England and Wales        | Holding company                      | Ordinary | 100              |
| Cineworld Cinemas Limited                             | England and Wales        | Holding company and cinema operation | Ordinary | 100              |
| Cineworld Finance Limited                             | England and Wales        | Dormant                              | Ordinary | 100              |
| Cineworld Estates Limited                             | England and Wales        | Cinema property leasing              | Ordinary | 100              |
| Cineworld South East Cinemas Limited                  | England and Wales        | Holding company                      | Ordinary | 100              |
| Cineworld Exhibition Limited                          | England and Wales        | Dormant                              | Ordinary | 100              |
| Gallery Holdings Limited                              | England and Wales        | Holding company                      | Ordinary | 100              |
| Gallery Cinemas Limited                               | England and Wales        | Dormant                              | Ordinary | 100              |
| Slough Movie Centre Limited                           | England and Wales        | Dormant                              | Ordinary | 100              |
| Adelphi-Carlton Limited                               | Eire                     | Cinema operation                     | Ordinary | 100              |
| Cineworld Cinema Properties Limited                   | England and Wales        | Property company                     | Ordinary | 100              |
| Cineworld Elite Pictures Theatre (Nottingham) Limited | England and Wales        | Non-trading                          | Ordinary | 99.1             |
| Classic Cinemas Limited                               | England and Wales        | Retail services company              | Ordinary | 100              |
| Computicket Limited                                   | England and Wales        | Dormant                              | Ordinary | 100              |
| Digital Cinema Media Limited                          | England and Wales        | Screen Advertising                   | Ordinary | 50               |

### 28. Debtors

|                                          | 29 December<br>2011<br>£000 | 30 December<br>2010<br>£000 |
|------------------------------------------|-----------------------------|-----------------------------|
| Amounts due from subsidiary undertakings | 141,667                     | 123,667                     |
|                                          | <b>141,667</b>              | <b>123,667</b>              |

### 29 Creditors Amounts Falling Due Within One Year

|                                        | 29 December<br>2011<br>£000 | 30 December<br>2010<br>£000 |
|----------------------------------------|-----------------------------|-----------------------------|
| Amounts due to subsidiary undertakings | 81,842                      | 64,823                      |
|                                        | <b>81,842</b>               | <b>64,823</b>               |

**30 Share Capital and Reserves**

|                                           | Share capital<br>£000 | Share premium<br>account<br>£000 | Profit and<br>loss account<br>£000 | Total<br>£000  |
|-------------------------------------------|-----------------------|----------------------------------|------------------------------------|----------------|
| At 30 December 2010                       | 1,417                 | 171,386                          | 18,407                             | 191,210        |
| Profit for the period                     | –                     | –                                | 15,778                             | 15,778         |
| Dividends paid during the period          | –                     | –                                | (15,193)                           | (15,193)       |
| Movements due to share-based compensation | –                     | –                                | 158                                | 158            |
| Equity instruments issued                 | 6                     | 375                              | –                                  | 381            |
| <b>At 29 December 2011</b>                | <b>1,423</b>          | <b>171,761</b>                   | <b>19,150</b>                      | <b>192,334</b> |

For details of share issue see Note 20

Share premium is stated net of share issue costs

Equity instruments granted of £158,000 represents the £447,000 fair value of share options granted to employees of subsidiary undertakings less a £289,000 adjustment to equity following the settlement of some share options in cash in 2011. There is a corresponding increase in investments, see Note 27

This element of the profit and loss reserve is not distributable

**31. Share-Based Payments**

See Note 18 of the Group financial statements

## Shareholder Information

### Directors

|            |                                                          |
|------------|----------------------------------------------------------|
| A H Bloom  | (Non Executive Director and Chairman)                    |
| S Wiener   | (Chief Executive Officer)                                |
| P Bowcock  | (Chief Financial Officer)                                |
| D Maloney  | (Non-Executive Director and Senior Independent Director) |
| P Williams | (Non Executive Director)                                 |
| T McGrath  | (Non-Executive Director)                                 |
| M King     | (Non-Executive Director)                                 |
| R Senat    | (Non-Executive Director)                                 |

### Head Office

Power Road Studios  
114 Power Road  
London W4 5PY

### Telephone Number

020 8987 5000

### Website

www.cineworld.co.uk  
www.cineworldplc.com

### Place of Incorporation

England and Wales

### Company Number

Registered Number 5212407

### Registered Office

Power Road Studios  
114 Power Road  
Chiswick  
London W4 5PY

### Auditors

KPMG Audit Plc  
15 Canada Square  
London E14 5GL

### Final Dividend – 2011

|              |              |
|--------------|--------------|
| Announcement | 8 March 2012 |
| Ex Dividend  | 6 June 2012  |
| Record Date  | 8 June 2012  |
| Payment Date | 5 July 2012  |

### Joint Brokers

JP Morgan Cazenove Ltd  
20 Moorgate  
London EC2R 6DA

### Investec Bank plc

2 Gresham Street  
London EC2V 7QP

### Legal Advisers to the Company

Oiswang LLP  
90 High Holborn  
London WC1V 6XX

### Public Relations Advisers

M Communications  
1 Ropemaker Street  
Ninth Floor  
London EC2Y 9HT

### Registrar

Capita Registrars Limited  
The Registry  
34 Beckenham Road  
Beckenham, Kent BR3 4TU

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