# Cinema City International N.V.

## Annual Report

**for the year ended**
**31 December 2009**

## GENERAL INFORMATION

**Management Board**

Moshe Greidinger
Amos Weltsch
Israel Greidinger

**Supervisory Board**

Coleman Kenneth Greidinger, Chairman
Scott Rosenblum, Vice-Chairman
Carrie Twist
Frank Pierce
Peter Weishut
Yair Shilhav

**Company secretary**

Malek Ballan

**Registered office**

Weena 210-212
3012 NJ  Rotterdam
The Netherlands

**Auditors**

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

## LETTER FROM THE CEO

Dear shareholders,

The year 2009 proved to be another record year for growth and profitability for the Cinema City Group. A combination of strong organic expansion by our company and a year of well received international and domestic movies helped us to achieve record revenues of EUR 211.6 million, a record EBITDA of EUR 46.4 million and a record net profit of EUR 24.4 million.

During the year, we continued our ambitious theatre expansion programme. We invested approximately EUR 37 million in new theatres during 2009. We opened a total of 105 new screens and closed 3 obsolete screens. In December 2007, we entered Romania, our sixth territory of operation, with the opening of our first 2 theatres in that country followed by the opening of another 4 theatres: one during 2008 and the rest during 2009. In December 2009, we made our first entry into Bucharest, the capital city of Romania, where we opened a 21 screen 'megaplex' in the new Cotroceni shopping mall. This multiplex, which includes an IMAX® screen, sold over 250,000 tickets in just its first 2 months of operation, already catapulting it to the position of the number one multiplex in Romania. With a population of almost 22 million, its recent entry into the European Union and a developing economy with virtually no modern multiplex theatres, we believe Romania will become our most active territory of development in the near future.

With a record of 27.5 million tickets sold in 2009, our theatre operations performed strongly. In particular, our Polish operations continued to perform well in 2009, supported not only by a fare of popular international movies, but also by a strong local supply of movies. We also had a strong year in our Hungarian, Romanian and Israeli operations, which were enhanced by our highly successful 'Planet' megaplex theatres in Haifa and Ramat Gan in Israel, and our newly opened multiplexes in Romania and Hungary.

The new screens we opened during 2008 had their first full twelve months of operations during the year ended 31 December 2009, which, together with the addition of 105 screens that opened during 2009, contributed to the increase in the positive results of our theatre operations, both in terms of number of admissions and EBITDA. In addition to the megaplex in Bucharest mentioned above, two other major projects opened: a 20-screen megaplex in Krakow, Poland, and a second multiplex in Budapest. I am proud to say that these three major projects all opened in a period of three weeks, further demonstrating the professional capabilities and devotion of our personnel.

Our real estate activities continued to contribute meaningfully to our 2009 results. This was driven primarily by the sale of our remaining interest in the Mall of Plovdiv in Bulgaria. In the beginning of 2010, we decided to sell our real estate operations in Bulgaria to our parent company, Israel Theatres. Our original strategy had been to use selective real estate development as an effective tool to allow us to rapidly enter new territories. In Bulgaria, we intended to replicate our successful strategy in Poland and to sell part or all of our Bulgarian real estate assets during their construction phase, as we were able successfully to do with the Malls of Plovdiv and Sofia, our first two development projects in Bulgaria. Current market conditions, however, are now making such sales very difficult. As Israel Theatres already has real estate interests in Bulgaria and in the region, and has a longer and more focused history in real estate development in general, both Israel Theatres and we believe it will be in our respective companies' and shareholders' best interest to move the Bulgarian real estate activities under the Israel Theatres' umbrella, whilst letting the Company concentrate on expanding our movie chain.

## LETTER FROM THE CEO

We expect 2010 to be another year of growth for Cinema City. While difficult real estate market conditions are slowing construction of a number of malls being developed by other real estate developers where we intend to lease space and operate, we still expect to open approximately 100 new screens during the year. The first opening should be a second major multiplex in the city of Bucharest, Romania, which we believe will strengthen our leading position, is this territory.

2010 has already begun strongly for the Company and has been led by the unparalleled success of *Avatar*, which is now the highest grossing movie of all time. *Avatar's* success has largely been driven by its 3-D format, which we believe will only further encourage Hollywood to adopt this new format more widely.

In spite of our ongoing optimistic view of our 2010 prospects, we remain cognizant of the after-effects of the financial and real estate crisis that swept the world over the past two years, including in our territories of operation. As we are aware that a sustained economic downturn or a tepid recovery could have a materially adverse impact on movie theatre admissions and on our ability to execute our aggressive growth strategy, we will accordingly monitor our external environment with diligence. Nonetheless, we have noted that during past economic downturns movie going often increases. Consumers desire to spend their smaller pools of discretionary funds on relatively inexpensive ways of 'escapist' entertainment such as movies.

I would like to take this opportunity to express my gratitude to our Cinema City employees for helping make 2009 such a successful year and for their continued hard work and dedication. Our rapid growth over the last number of years has already made us among the top five cinema exhibitors in continental Europe, and with our ambitious plans for continued growth and development, we are committed to aim even higher. We know that our ultimate success will continue to largely depend on the ongoing contribution of each one of our emloyees.

And last but not least, I would like to thank our millions of customers in six countries who continue to share in our never ending love for the movies. We are committed more than ever to deliver to each one of them every day unparalleled service and the best movie going experience.

As we say in the movie business… to be continued….

***Moshe Greidinger, CEO***

***15 March 2010***

# Contents

# Supervisory Board report

We take pleasure in presenting the financial statements of Cinema City International N.V. for the financial year 2009, accompanied by the report of the Management Board. KPMG Accountants N.V. audited the financial statements and issued an unqualified auditor's report. We recommend the shareholders adopt the financial statements as presented.

We concur with the Management Board's proposal as taken up on page 114 to allocate the net profit for the year 2009 amounting to EUR 24,426,000 to retained earnings.

***Supervision***

During the year 2009, there have been three meetings between the Supervisory Board and the Management Board during which the following topics were mainly discussed:

- the Company's business strategy;
- the corporate governance structure of the Company and the implementation of the Dutch corporate governance code;
- risk management;
- the Management Board remuneration policy including the execution of the long-term incentive plan;
- financial results and other related issues.

All Supervisory Board meetings held in 2009 were attended by the majority of the members of the Supervisory Board. None of the members of the Supervisory Board have been absent during more than one Supervisory Board meeting in 2009.

***Audit Committee***

The roles and responsibilities of the Audit Committee are to supervise, monitor and advise the Management Board and Supervisory Board on all matters related to risk management, audit, control and compliance to relevant financial legislation and regulations. The Audit Committee evaluates the performance of external auditors and related costs. During the year 2009, the Audit Committee has met six times. The Audit Committee has also held meetings with the external auditors.

***Appointment committee***

The primary responsibility of this committee is to advise the Supervisory Board on matters relating to the nominations of both Management and Supervisory Board members. The Appointment Committee regularly reviews the Supervisory Board profile, its effectiveness and composition. The committee also reviews the performance of the members of the Management Board. During the year 2009, the Appointment Committee has met twice.

***Remuneration Committee***

It is the primary task of the Remuneration Committee to propose to the Supervisory Board remunerations of the members of the Management Board, including a review and monitoring of the Group's total remuneration policy. During the year 2009, the Remuneration Committee has met twice.

***Financial statements***

The Management Board has prepared the 2009 financial statements. These financial statements were discussed at an Audit Committee meeting attended by the auditors, who provided further information on the audit process and their audit findings.

These financial statements were further discussed and approved by a Supervisory Board meeting.

## Supervisory Board report

***Composition of the Supervisory Board***

In order to secure continuity within the Board, the Supervisory Board has adopted an arrangement that provides for a staggered expiration of individual terms. Under this arrangement, the reappointment for a four-year term of one member of the Supervisory Board has been scheduled prematurely for the Annual General Meeting of Shareholders in June 2009. During this General Meeting of Shareholders, Mr Weishut has been reappointed as Supervisory Director of the Company. His new term will expire in June 2013. For the upcoming General Meeting of Shareholders, the reappointment of Messrs Frank Pierce and Yair Shilhav will be scheduled.

**15 March 2010**
**For the Supervisory Board**

Coleman Kenneth Greidinger
Chairman

# Corporate Governance

## Governance structure

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

### *Corporate Governance Code in the Netherlands*

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

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

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

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

## Corporate Governance

***Exceptions to the application of the Dutch Corporate Governance Code***

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

II. 2.1 *Options to acquire shares are a conditional remuneration component, and become unconditional only when the Management Board members have fulfilled predetermined performance criteria after a period of at least three years from the grant date.*

Under the current remuneration policy, options are granted unconditionally. The Company shall not amend these existing arrangements. Considering that the Company is still in a relatively early stage of development and that the setting of credible predetermined performance criteria at a term of at least three years is not practical at this stage, the Company shall not apply this provision. Moreover, as of the date of this Annual Report no options have been granted to any memebers of the Management Board.

II. 2.6 *The supervisory board shall draw up regulations concerning ownership of and transactions in securities by Management Board members, other than securities issued by their 'own' company. The regulations shall be posted on the Company's website. A Management Board member shall give periodic notice, but in any event at least once a quarter, of any changes in his holding of securities in Dutch listed companies to the compliance officer or, if the company has not appointed a compliance officer, to the chairman of the supervisory board. A Management Board member who invests exclusively in listed investment funds or who has transferred the discretionary management of his securities portfolio to an independent third party by means of a written mandate agreements is exempted from compliance with this last provision.*

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

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

Our Supervisory Board currently consists of six members, of which four are independent within the meaning of the Dutch Corporate Governance Code.

The Company currently has two dependent members of the Supervisory Board, which is a deviation from the Code. However, the current composition of Supervisory Board is consistent with Polish corporate governance guidelines. Moreover, the Company's Articles of Association state that the Supervisory Board shall have at least two independent Supervisory Board directors, which criterion is being met given the four independent members of the Supervisory Board.

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

III. 7.3 *The supervisory board shall adopt a set of regulations containing rules governing ownership of and transactions in securities by supervisory board members, other than securities issued by their 'own' company. The regulations shall be posted on the company's website. A supervisory board member shall give periodic notice, but in any event at least once a quarter, of any changes in his holding of securities in Dutch listed companies to the compliance officer or, if the company has not appointed a compliance officer, to the chairman of the supervisory board. A supervisory board member who invests exclusively in listed investment funds or who has transferred the discretionary management of his securities portfolio to an independent third party by means of a written mandate agreement is exempted from compliance with this last provision.*

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

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

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

***Transactions with a conflict of interest***

During the financial year 2009 no transactions as referred to in best-practice provisions II.3.4, III.6.3 and III.6.4 took place involving a conflict of interest relating to directors, supervisory board members or natural and/or legal persons holding at least 10% of the shares in the company. Applying best-practice provisions II.3.2, II.3.3, III.6.1 and III.6.2 was therefore not relevant.

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

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

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

## Corporate Governance

### *Corporate governance code of the Warsaw Stock Exchange*

On 4 July 2007, the WSE Board adopted the corporate governance rules of the WSE contained in the Code of Best Practice for WSE-Listed Companies (the 'WSE Corporate Governance Rules 2008'). The WSE Corporate Governance Rules 2008 apply to companies listed on the WSE, irrespective of whether such companies are incorporated in Poland or outside of Poland. The WSE Corporate Governance Rules 2008 consist of general recommendations relating to best practices for listed companies (Part I) and best practice provisions relating to Management Boards, supervisory board members and shareholders (Parts II to IV).

The WSE Corporate Governance Rules 2008 impose upon the companies listed on the WSE an obligation to disclose in their current reports continuous or incidental non-compliance with best practice provisions (with the exception of the rules set forth in Part I, in respect of which and based on a resolution of the Management Board of the WSE dated 11 December 2007 WSE-listed companies are not required to publish a current report). Moreover, every year each WSE-listed Company is required to publish a detailed statement on any non-compliance with the WSE Corporate Governance Rules 2008 (including the rules set forth in Part I) by way of a statement submitted with the company's annual report (the 'Yearly Compliance Statement').

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

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

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

**Corporate Governance**

## General Meeting of Shareholders

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

Other General Meetings of Shareholders shall be held as often as the Management Board or the Supervisory Board deems necessary. Shareholders representing in the aggregate at least one-tenth of the Company's issued capital may request the Management Board or the Supervisory Board to convene a General Meeting of Shareholders, stating specifically the issues to be discussed.

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

## Supervisory Board and Management Board

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

## Supervisory Board and Supervisory Board committees

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

The Supervisory Board is supported by three committees:

- the Audit Committee;
- the Appointment Committee;
- the Remuneration Committee.

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

## *Composition of the Supervisory Board*

### Coleman Greidinger (male, 1 January 1924, Israeli nationality)

Coleman Greidinger was appointed as a member of the Supervisory Board in 2004, is the current Chairman of the Supervisory Board and a member of the Audit Committee. He founded Israel Theatres Ltd. in 1958 and has been Managing Director of Israel Theatres Ltd. and affiliated companies since that time. He was also a President of Variety Israel, serves as a member of the International Board of Variety Clubs and is a member of the board of governors of the Hebrew University in Jerusalem and the board of governors of the Technion University in Haifa. He is the father of Moshe and Israel Greidinger. His current term as Supervisory Director expires in June 2012.

### Yair Shilhav (male, 12 October 1958, Israeli nationality)

Yair Shilhav was appointed as a member of the Supervisory Board in November 2006, and is the Chairman of the Audit Committee. Since 2004, Mr Shilhav has been the owner of a business consulting office. Between 2000 and 2003, he was a member of the executive directory committee of the audit firm, Somekh Chaikin, a member of KPMG ('Somekh Chaikin'). Between 1995 and 2003, he was the head of the Haifa branch of Somekh Chaikin, of which he was partner from 1990 to 2003. Prior to becoming a partner at Somekh Chaikin, he was head of the professional and finance department of the same firm. He was also the head of the accountancy faculty at Haifa University between 1998 and 2002. His current term as Supervisory Director expires in November 2010.

### Arthur F. Pierce (male, 4 April 1930, U.S. nationality)

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

### Scott S. Rosenblum (male, 4 October 1949, U.S. nationality)

Scott Rosenblum was appointed as a member of the Supervisory Board in 2004, was appointed Chairman of the Remuneration Committee and of the Appointment Committee in November 2006 and is also a member of the Audit Committee. He is licensed as a lawyer and admitted to the New York Bar Association. For the past ten years he was a partner in the law firm of Kramer Levin Naftalis & Frankel LLP, New York, and was Managing Partner between 1994 and 2000. He is currently a director of Temco Service Industries, Inc. He is also legal adviser to Israel Theatres Ltd., the indirect shareholder of the Company. His current term as Supervisory Director expires in June 2012.

### Caroline M. Twist (female, 25 January 1956, U.K. nationality)

Caroline Twist was appointed as a member of the Supervisory Board in 2004 and, as of November 2006, has been a member of the Remuneration Committee. Between 1978 and 1984, Ms Twist worked as a manager in ABC/Thorn EMI cinemas in the UK. From 1984 to 1988, she served as West End Regional Manager / New Projects Manager for C.I.C. Theatres in the U.K. From 1989 until now, Ms Twist has held various managerial positions, with Pacer Cats, a leading supplier of computerised ticketing systems, both in the United States and Europe. Her current term as Supervisory Director expires in June 2012.

### *Composition of the Supervisory Board (cont'd)*

### Peter J. Weishut (male, 31 July 1935, Dutch nationality)

Peter Weishut was appointed as a member of the Supervisory Board in 2004 and, as of November 2006, has been a member of the Appointment Committee. Between 1969 and 1997, Mr Weishut worked as a director in Akzo Nobel in the Netherlands and Japan. From 1997 to 1999, he served as Management Consultant for Rafino, producer of pet foods, in the Netherlands. Between 1999 and 2001, Mr Weishut was the treasurer of a foundation celebrating the 400-year relationship between the Netherlands and Japan. His current term as Supervisory Director expires in June 2013.

## Management Board

The management of the Company is entrusted to the Management Board under the supervision of the Supervisory Board. The Articles of Association provide that the Management Board shall consist of two or more managing directors. Managing directors are appointed by the General Meeting of Shareholders. The Management Board shall meet as often as a managing director requests a meeting. All resolutions by the Management Board shall be adopted by an absolute majority of the votes cast.
The Management Board as a whole is responsible for the day-to-day management, including comprehensive risk management control, financing and regulatory compliance. Cinema City International N.V. and its operating companies (the 'Group') are organised along clear functional reporting lines. Throughout the Group, corporate and operating accountabilities, roles and responsibilities are in place.

### *Composition of the Management Board*

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

Moshe J. (Mooky) Greidinger was appointed Chief Executive Officer of the Company in 1984. Mr Greidinger joined the Company in 1976. Since 1984, he has held executive positions with the Company with substantially the same responsibilities as he presently maintains. Mr Greidinger has also served as a director and Deputy Managing Director of Israel Theatres Ltd. since 1983 and Co-Chairman of the Cinema Owners Association in Israel since August 1996. He is the brother of Israel Greidinger and the son of Coleman Greidinger. His current term as Managing Director expires in June 2012.

### Amos Weltsch (male, 28 February 1950, Israeli nationality)

Amos Weltsch joined the Company in 1980 at which time he was appointed Chief Operating Officer of the Company. Since that time, Mr Weltsch has held executive positions with the Company with substantially the same responsibilities as he presently maintains. He has also held various senior management positions with Israel Theatres Ltd. and affiliated companies since 1980. From 1974 to 1978, he was a manager at L. Glickman Building Materials, and from 1978 to 1980, a managing director of Eitan Cement Ltd. His current term as Managing Director expires in June 2012.

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

Israel Greidinger joined the Company in 1994 and was appointed Chief Financial Officer of the Company in 1995. Since that time, he has held executive positions with the Company with substantially the same responsibilities as he presently maintains. Mr Greidinger has also served as a director of Israel Theatres Ltd. since 1994. From 1985 to 1992, Mr Greidinger served as Managing Director of C.A.T.S. Ltd. (Computerised Automatic Ticket Sales), a London company, and from 1992 to 1994, he was President and Chief Executive Officer of Pacer Cats Inc. He is the brother of Moshe Greidinger and the son of Coleman Greidinger. His current term as Managing Director expires in June 2012.

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

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

***a. Capital structure of the Company***
The capital of the Company consists of one class of shares, being ordinary shares with a nominal value of EUR 0.01 each. Information on issued shares has been included under Note 16 to the Consolidated Financial Statements.

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

***c. Duty to report interests in the Company***
The Company has been notified regarding shareholders with a substantial holding in accordance with the Act on Financial Supervision (5% or more) in the Company (I.T. International Theatres Ltd., Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK, ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. and BZ WBK AIB Asset Management S.A.).

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

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

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

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

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

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

### *i. The powers of the board*

By virtue of article 6 of the Articles of Association, the Company can only issue shares, subject to a proposal by the Management Board and approval by the Supervisory Board, pursuant to a resolution approved by the General Meeting or of any other corporate body designated to do so by a resolution of the General Meeting for a fixed period not exceeding 5 years. Such designation must be accompanied by a stipulation as to the number of shares that may be issued. As at 23 June 2009, the General Meeting authorised the Board of Managing Directors for a period not exceeding 5 years to issue new shares with the discretion to exclude or restrict the shareholders' pre-emption right, provided that all relevant resolutions of the Board of Managing Directors regarding issue of shares and exclusion or restriction of pre-emption rights will be subject to prior approval by the Board of Supervisory Directors.

The Company may acquire own shares, subject to certain legal restrictions, only if the Management Board has been authorised at the General Meeting to make such acquisitions which authorisation shall be valid for not more than 18 months and shall specify the number of shares which may be acquired. Management Board has been authorised by the General Meeting to repurchase and/or alienate existing shares in the Company with such a maximum of shares as allowed by the limitations under the Articles of Association and at a price not lower than the nominal value and not exceeding 110% of the average share price five days prior to the date of the transaction.

Both authorisations will allow the Company to execute the prevailing employee incentive plan and to issue new shares and to repurchase and alienate existing shares for general corporate purposes.

### *j. Important agreements when issuing a public bid*

The Company is not aware of any existing agreement which is relevant in the context of the issuance of a public bid except for a limitation related to loans provided by Bank Leumi Israel. According to this limitation, all bank loans outstanding with Bank Leumi will become immediately payable, in case Israel Theaters' indirect holding in the Company will be below 51%.

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

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

# Risk Profile and Risk Management

## *Risk profile*

*Supply and Quality of Movie Product*

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

*Competitive Environment*

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

*Movie Alternatives*

The Company also competes with other movie and video delivery technologies, including cable television, the Internet, in-home video and DVD, satellite and pay-per-view services. Traditionally, when motion picture distributors licensed their products in each local market, they refrained from or delayed licensing their motion pictures to these other delivery vehicles during the theatrical release window. We believe that a material contraction of the way people prefer to see movies, or in the current theatrical release window could significantly dilute the consumer appeal of the in-theatre motion picture offering, which could have a material effect on our business and results of operations. The movie exhibition industry is in the process of converting into digital 3-D technology, and the Company in its markets is in the forefront of this technological revolution. We believe such revolution and the display of 3-D movies, can increase the appeal of movie theaters, and give them a new edge in their competition with the alternative choices listed above.

*Reliance on Leases*

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

*Currency Risks*

While the Company realises income in local currencies, it also incurs most of its costs in local currencies as well. However, some of the Company's long term leases are denominated either in US dollars or in Euros and the Company reports its results overall in Euros. As a result, the Company can be negatively impacted by devaluation of the local currencies against the Euro and the US dollar. In order to minimise this impact, the Company has entered into currency hedge contracts to protect its currency exposure. In addition, because the

Company reports its financial results in Euros, even with the benefit of the currency hedges, the Company's absolute numbers may be impacted by a significant devaluation. For example, the Company revenues reported in Euros may decrease as and when the Company's major local currencies, such as the Polish zloty, are devalued against the Euro.

*The Economy*

There can be no assurance that the Company will not be materially adversely impacted if the nascent worldwide economic recovery remains weak or is not sustained. Continued softness in consumer spending, even in light of a modest economic rebound, could result in an ongoing weakness in 'mall traffic', which has historically supported theatre admissions. In addition, if consumers continue to have considerably less disposable income, discretionary entertainment choices, such as movie going, could be adversely impacted. Even if movie going itself is not materially adversely impacted, movie goers could determine to spend less money for food and drinks at the Company's high-margin concession stands. Moreover, advertisers could decrease their use of the Company's expanding theatre and screen advertising services. Management has noted, however, throughout years of economic distress, movie going often increases. Consumers desire to spend their smaller pools of discretionary funds on relatively inexpensive forms of 'escapist' entertainment such as movie going. The Company has seen very strong admissions trends through the date of this report and continues to see no evidence of any downturn in theatre visits resulting from external economic factors.

***Interest rate risk***

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

***Risk management***

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

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

Various organisational measures and procedures have been implemented in order to improve the quality of operations and incorporate the correct checks and balances into the activities, including approvals, authorisations, reviewing investment decisions and so on. In implementing the best-practice provisions of the Dutch and Polish corporate governance codes the Company introduced an internal risk management and control system tailored to the Company and, over the years, amended this from time-to-time to reflect organisational changes. This system was designed (i) to manage the operational risks identified in each area of activity, (ii) to identify financial risks promptly and (iii) to ensure the quality of financial reporting. The system was incorporated into the Company's operating processes. During 2009, the proper operation of the internal risk management and control system has been monitored. The evaluation was discussed with the members of the Audit Committee and the Supervisory Board. Lastly, the Company has a whistleblowing procedure in place to allow reporting of any suspected general, operational or financial irregularities.

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

For a description of the Company's financial risk management and the Company's policies regarding financial instruments reference is made to Note 32 of the Consolidated Financial Statements.

# Remuneration Report

## Introduction

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

## Remuneration Policy

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

## Governance

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

## Remuneration of the Management Board

***Employment contracts***

The three members of the Company's Management Board have employment contracts that are automatically renewed at the end of each year for another twelve months unless prior notice of termination is given by either party. The employment contracts also include a non-compete clause that requires each Managing Director to refrain from any activity that is competitive to the Company's activity for a period of twelve months after termination of employment. The Management Board members are paid a monthly base salary indexed to the Israeli consumer price index and further participate in a bonus pool equal to 7% of the Company's pre-tax profit before the bonus which is paid out on an annual basis. Forum Film (Israel), the Company's 50% subsidiary, covers 100% of the portion of the bonus pool derived from Forum Film (Israel) profits and 33% of the monthly based salaries to Messrs Moshe Greidinger and Israel Greidinger.

As the bonus pool equals 7% of the Company's pre-tax profit (before the bonus) the relative significance of the variable component in the total remuneration for the Management Board members can vary from year to year depending on the achieved pre-tax profit. The Supervisory Board is of the opinion that the current remuneration structure including the variable component thereof is appropriate for the Company in its present phase as it aligns the interests of the shareholders and the interest of the Management Board and incentivises management to focus on realising the Company's strategy and its longer term success.

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

## Remuneration Report

***Long-term incentive plan***

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

Under the Plan, options may be granted to purchase up to a maximum of 930,000 newly issued or repurchased shares. The Supervisory Board is authorised to determine, with the participation of at least one independent member of the Supervisory Board, the exact terms of any stock or stock-based incentive scheme. The actual grant of share options is disclosed in the Notes to the Consolidated Financial Statements.

### Remuneration of the Supervisory Board

Each Supervisory Board member receives an annual remuneration of EUR 12,500 and EUR 1,500 per attendance at meetings or EUR 750 if attendance is by telephone.

The chairman of the Audit Committee is entitled to an additional EUR 5,000 per year and the chairman of each other committee is entitled to an additional EUR 2,500 per year.

# Directors' report

## General

### Introduction

Cinema City International N.V. (the 'Company'), incorporated in the Netherlands, is a subsidiary of I.T. International Theatres Ltd. ('ITIT' or 'parent company'). The Company (and together with its subsidiaries, the 'Group'), is principally engaged in the operation of entertainment activities in various countries including: Poland, Hungary, Czech Republic, Bulgaria, Romania and Israel. The Company, through related entities, has been a family operated theatre business since 1929. The Company shares are traded on the Warsaw Stock Exchange. As at 9 March 2010, the market price was PLN 36.8 (EUR 9.53) per share, giving the Company a market capitalisation of EUR 484.4 million. The Company's office is located in Rotterdam, the Netherlands.

### Company overview

The Company is the largest operator of multiplex cinemas in Central Europe and, as of 15 March 2010, operates 558 screens in 54 cinemas (out of total of 668 screens), in Poland, Hungary, the Czech Republic, Bulgaria and Romania.The Company continues to have significant expansion plans for Central Europe, mainly in Poland and Romania, but also in Hungary, the Czech Republic and Bulgaria. In addition to Central Europe, the Company is one of the two leading motion picture exhibitors in Israel, operating 110 screens in 15 multiplexes throughout the country. The Company has historically benefited from its relationships with international film companies, having acted as the exclusive motion picture distributor for Walt Disney Company ('Disney') in Israel for well over 40 years and, more recently, in Poland, Hungary, Bulgaria and Romania. The Company also maintains an exclusive arrangement with the IMAX Corporation to develop IMAX® theatres in Poland, the Czech Republic, Hungary, Bulgaria and Romania.

### Business strategy

The Company's strategic objectives are to enhance its position as a leading operator of multiplex cinemas in Central Europe through continued expansion in Poland, Hungary, the Czech Republic, Bulgaria and Romania, to consider growth opportunities in new geographies in Europe when they present themselves and to strengthen its position as a leading motion picture exhibitor in Israel. The Company plans to continue to design and operate multiplex theatres, which it believes will promote increased attendance and maximise space and operating efficiencies through improved utilisation of theatre capacity and reduced labour costs. In conjunction with its movie exhibition business, the Company is also active in other movie related activities, including screen advertising and film distribution. The Company plans to continue developing its film related activities, mainly in Central Europe, and believes these operations will continue to play a key role in achieving the Company's objectives. In addition, in conjunction with its expansion in Central Europe, the Company has, on occasion, invested in the development of commercial real estate projects associated with its theatres in a number of locations in Central Europe and in general, intends opportunistically to continue to do so.

# Economy and business developments during the year ended 31 December 2009

### Economic environment

Central and Eastern Europe have undergone a massive economic transformation over the past 15 years that has brought about rapid modernisation, an improvement in living standards and a significant increase in disposable income per capita. This process has been only accelerated for those countries that have gained full membership into the European Union and are in the process of converting their financial systems into Euro-based economies.

Recently, the region appears to be emerging tentatively from a very difficult two years characterised by a steep drop in the regions' real estate markets and a significant devaluation of the regional currencies resulting from perceived over-lending by the regional banks. During this recessionary period, the Company did not see any negative impact on its theatre admissions as a consequence of the economic environment.

Nonetheless, the economic upheaval over the past two years has proven to be challenging in connection with managing foreign exchange risk as the past two years revealed unusual volatility in currency exchanges. For the most part, this is not a significant concern for the overall financial health of the Company, because while it realises income in local currencies, it also incurs most of its costs in local currencies as well. However, some of the Company's long-term leases are denominated either in US dollars or in Euros and the Company reports its results overall in Euros. Therefore, the Company has entered into some currency hedge contracts to limit its currency exposure. The Company currently has contracts in place for mainly 2010 and partly for 2011, and believes these contracts will mitigate in large part any volatility in its local currencies for these two years. The Company will evaluate during the course of 2010 whether it should consider acquiring new hedging instruments for 2011 and beyond.

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

### *Cinema market*

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

*Competitive environment*

**Poland**

Cinema City remains the clear leader in the Polish movie exhibition market. As of 31 December 2009, the Company operated 316 screens in 28 cinemas, and had in 2009 a 37.4% share of the total market as measured by admissions (not including the IMAX® theatres) and a 44.5% share of multiplex admissions. Moreover, the Company has a leading position in Warsaw, currently accounting for over 60% in market share for multiplex admissions in this metropolitan region.

Following the consolidation in the Polish movie exhibition market, which took place in 2008, the Company now has two main competitors – Multikino (21 theatres) and Helios (24 theatres).
Apart from being the market leader in the movie exhibition industry in Poland, Cinema City owns and operates the leading cinema advertising sales house, New Age Media, and is one of the major film distributors through its Forum Film Poland subsidiary. Forum Film Poland is the exclusive distributor of Buena Vista International, a subsidiary of Disney, distributing movies of Disney and Touchstone. In addition, Forum Film Poland distributes films from Spyglass and several other independent producers and domestic film studios.

**Hungary**

At 31 December 2009, the Company is the largest exhibitor in Hungary in number of screens (115 screens). The Company currently has an approximate 38% share of the Hungarian market. Following the opening of the Company's second major multiplex in the city of Budapest toward the end of 2009, the Company expects its market share to grow in 2010.

The main competitors in Hungary are Palace Cinemas (91 screens) and Budapest Film (16 screens).

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

During the fourth quarter of 2009, the Company decided to close the DVD distribution operations in Hungary due to ongoing poor performance and uncertain future prospects. In particular, the decision to close these operations was finalised as a result of the determination by one of the studios, which the Company represented in this line, not to renew its DVD distribution agreement with the Company. These operations accounted for an operating loss of EUR 1.2 million for the year ended 31 December 2009.

## Czech Republic

Cinema City is one of the largest cinema operators in the Czech Republic with a relatively strong presence in Prague. As of 31 December 2009, the Company operated 45 screens (not including the IMAX® theatres), and had a 13% share of the total market as measured by admissions (not including the IMAX® theatres) and a 20% share of admissions to multiplex cinemas.

The cinema market in the Czech Republic outside Prague has been relatively undeveloped. In January 2009, the Company opened a new multiplex cinema outside of Prague, in Pardubice, a smaller city about 100 kilometres from Prague. This multiplex is the Company's second cinema outside of Prague following the multiplex in the city of Plzen (one of the Czech Republic's larger secondary cities), which opened in March 2008.

The Company's main competitors in the Czech market are Palace Cinemas (55 screens) and Cinestar (83 screens).

Apart from being the market leader in the movie exhibition industry in the Czech Republic, Cinema City owns and operates a leading cinema advertising sales house, New Age Media. and is a major film distributor through its Forum Film Czech subsidiary.

During the fourth quarter of 2009, the Company decided to close the DVD distribution operations in the Czech Republic due to ongoing poor performance and uncertain future prospects.These operations, however, accounted for an operating loss of only EUR 0.3 million for the year ended 31 December 2009.

## Bulgaria

The cinema exhibition market in Bulgaria remains relatively underdeveloped.

Following the successful completion in the first quarter of 2009 of Mall of Plovdiv, a new shopping mall developed by the Company in the city of Plovdiv, the Company currently operates two modern multiplexes in Bulgaria located in the Mall of Sofia and Mall of Plovdiv with a total of 24 screens and one IMAX® theatre.

The Company has signed contracts for a number of additional multiplexes, which it plans to open in the coming 3 years. The Company's main strategy to date in Bulgaria has been to acquire and develop mall projects, sell them upon completion, whilst maintaining a favourable long-term lease on the multiplex facility in the mall. In addition, the Company has commenced screen advertising and film distribution activities in Bulgaria. Forum Film Bulgaria is the exclusive distributor of Buena Vista International, distributing movies of Disney and Touchstone.

Subsequent to the end of 2009, the Company signed a Memorandum of Understanding with its controlling shareholder, Israel Theatres Ltd., to sell all of its real estate development and related activities in Bulgaria to Israel Theatres for approximately EUR 85 million. The transferred business will include the Mall of Russe project in the city of Russe, which is in an advanced construction stage and is expected to open in 2010; the mall of Stare Zagora, which is still in its planning stage; and RESB EOOD , the management company, which is responsible for building and leasing these assets. The primary reason for the transaction is to permit the Company to focus on developing its theatre exhibition and film distribution businesses in Bulgaria while reducing its outstanding debt, and allowing Israel Theatres to focus on its core competency associated with real estate development. This transaction which is expected to close prior to the end of Q1 2010, is discussed in more detail on pages 29 through 32.

## Romania

Cinema City is the largest operator of multiplex theatres in Romania. The Company currently runs 6 modern multiplexes, two of which were opened in November 2007, one in October 2008, and three in the course of 2009. The Company has entered into additional lease agreements, which would result in the opening of an additional screens in the country over the next three years.

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

Lack of investment in cinemas through the years led to a dramatic decrease in the number of cinema screens. Old cinemas were closed down and admissions decreased dramatically. Outside of Cinema City's recent activity, the country currently has very few multiplexes. Two of the country's multiplexes are owned by a private company, Hollywood Multiplex Romania, which operates one multiplex in Bucharest with 10 screens and another one in the city of Oradea with 5 screens, as well as a single screen cinema in Bucharest. In addition, there are approximately 70 single screen cinemas in Romania, most of which are state-owned.

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

## Israel

The Company operates in Israel under the brand name of 'Rav-Chen' and 'Planet' (the brand name 'Cinema City' was previously reserved in Israel by a competitor). The Israeli movie exhibition market is dominated by two cinema operators. As of 31 December 2009, the Company is the largest cinema operator in Israel, based on number of theatres (110 screens in 15 theatres). Globus is the second largest operator with 96 screens in 14 theatres.

The Company continues to modernise and upgrade its Israeli chain, and strengthen its position in the Israeli market, through the closing of its smallest and oldest multiplexes while opening modern state-of-the-art larger multiplex theatres.

The Company is also a major film distributor through Forum Film, a 50% owned subsidiary of the Company. Forum Film is the exclusive film distributor of Disney and several other independent studios. The Company's main competitor in the distribution business is Globus which, through its own distribution channel, acts as a distributor for Warner and UIP. Other players in the cinema market in Israel include Lev Cinemas and Cinema City (a brand registered in Israel by a competitor).

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

**Business highlights during 2009**

The Company turned in a very solid performance for the year ended 31 December 2009, with revenues, EBITDA (Earnings before Interest, Taxation, Depreciation and Amortisation) and net income all having increased in comparison to 2008. Consolidated EBITDA grew from EUR 39.4 million in 2008 to EUR 46.4 million for 2009. Net income grew from EUR 17.7 million in 2008 to EUR 24.4 million for 2009.

The Company continued to enjoy increased ticket sales in most territories and improvement of operating results in local currency. During the year, the Company continued to benefit from a robust international movie line-up, which has now for an extended period been supporting strong performance of its theatre operations.

Despite the rapid growth of the Company's theatre operation results in local currency terms during the year ended 31 December 2009 compared to 2008, the significant devaluation of the local currencies in most of the Company's territories in Central and Eastern Europe compared to the Euro – the Company's reporting currency – has resulted in the Company's EBITDA results in Euro appearing to grow at a much slower pace than the actual results. This negative currency impact was partly offset by positive results from the hedging contracts that the Company entered into during previous years in order to limit its rent-related exposure to the Euro and US Dollar. On the operating profit level this negative currency impact was offset further by a reduction in the Company's depreciation expenses denominated in Euros, resulting from the same currency devaluation.

During 2009, the Company sold its remaining interest in the Mall of Plovdiv to GE Real Estate and Quinlan Private (Ireland), the same parties that purchased the first 50% of the project in the past.

*Theatre operations*

The Company's strong theatre operations during the year ended 31 December 2009 were supported by a well received supply of international movies. In particular, as has been the case for the last number of years, the Company's Polish operations performed very well, supported by a strong supply of Polish movies. 2009 results were also supported by strong performance in other territories of operations, mainly in Romania, Israel and Hungary. The new screens that the Company opened during 2008 had their first full twelve months of operations during 2009, which, together with the addition of 105 screens that opened during 2009, contributed to the increase in the positive results of the Company's theatre operations, both in terms of number of admissions and EBITDA.

During the fourth quarter of 2009, the Company opened 3 new multiplexes: a 13 screen multiplex in Budapest, Hungary, a 21 screen multiplex (including an IMAX® screen) in Bucharest, Romania, and a 20 screen multiplex in Bonarka, Poland. During the same period, the Company closed 1 multiplex with 3 screens in Or Akiva, Israel. The 3 new multiplexes were in addition to the 6 multiplexes opened earlier in the year: a 6 screen theatre in Pitesti, Romania, an 8 screen theatre in Czestochowa, Poland, an 8 screen multiplex in Pardubice, the Czech Republic, an 8 screen multiplex in Bacau, Romania, an 11 screen multiplex in Plovdiv, Bulgaria, and a 10 screen multiplex in Bielsko Biala, Poland.

In total, in 2009 the Company opened 9 multiplexes comprising 105 screens, and closed one 3 screen theatre. The Company's total screen count as at 31 December 2009 is 668 (including 9 IMAX® theatres).

*Digital Projection*

The Company continues to install state-of-the-art digital projectors, both in its new projects and in many of the Company's existing theatres. In each theatre, the Company installs between 1 to 4 such projectors. Currently, the Company has installed over 140 digital projectors, and intends to install approximately 80 more of these projectors in its leading multiplexes through the end of 2010. The digital projectors, which represent the most important technological advance in movie viewing since the 1950s, provide a higher quality and a sharper resolution viewing experience than traditional projectors, and the ability to display a new generation of 3-D movies.
The record breaking success of *Avatar* at the end of 2009 and early in 2010 appears to have validated the long-term value proposition associated with digital projection. The 3-D version of this movie generated huge demand and captured premium ticket pricing. Moreover, the fact that the Company has been ahead of its competition in many markets in installing digital screens allowed the Company to take market share away from its competitors as the Company's 3-D version of *Avatar* has been far more successful than any comparable non-digital movie.

The Company believes that in the long term, digital technology will not only generate higher attendance through 3-D films and alternative content (such as operas, ballet, leading worldwide concerts and sporting events), but it can also help reduce cinema labour costs as digital projectors require less ongoing manpower than traditional reel-to-reel projectors.

*Real estate operations and other activities*

During the year ended 31 December 2009, real estate activities contributed strongly to the Company's results. The Company realised EUR 25.2 million of revenues from real estate and other activities during 2009, compared to EUR 9.9 million during 2008. During 2009, the Company sold its remaining interest in the Mall of Plovdiv to GE Real Estate and Quinlan Private (Ireland), the same parties that purchased the first 50% of the project about two years earlier. The sale transaction, for which the Company recorded a revenue of EUR 23 million, was completed at the time of the Mall's opening in March 2009. Under the terms of the sale, the Company continues to hold a long-term lease for the 11 screen multiplex located in the Mall of Plovdiv, which also opened in March 2009. The Company (and the other selling shareholders that participated in the sale) continued to be responsible for the final completion of the project following the closing, which consisted primarily of supervising the completion activities of the Mall's main contractors. By the end of June 2009, the Company had substantially satisfied its outstanding obligations, which included reaching final agreement with the contractors and delivering the completed project to the purchasers. As a result, during the second quarter of 2009, the Company substantially reduced the accrued estimated costs of its outstanding obligations for this project. As at 31 December 2009, the Company maintained the reduced level of accrued estimated costs, as certain elements relating to the completion of the project are still under discussion with the purchasers.

Subsequent to the end of 2009, the Company signed a Memorandum of Understanding with its controlling shareholder, Israel Theatres Ltd., to sell all of its real estate development and related activities in Bulgaria to Israel Theatres for approximately EUR 85 million. The business includes (1) the Mall of Russe project in the city of Russe, which is in an advanced construction stage and is expected to open in 2010, (2) the Mall of Stara Zagora, which project is still in its planning stage, and (3) the local management company, RESB EOOD, which is responsible for managing the construction of and leasing activities for these assets. The primary reason for the transaction is to permit the Company to focus on developing its theatre exhibition and film distribution businesses in Bulgaria while reducing its outstanding debt. The transaction is expected to close prior to the end of the first quarter of 2010.

*Film distribution activities*

The Company's distribution division had a relatively slow year in 2009, compared to 2008. Revenue generated by the Company's film and video distribution division was down in most territories, while also the devaluation of the local currencies in comparison to the Euro materially contributed to this reduction. Gross profit generated by distribution activities was down mainly in Israel. The Israeli distribution activities continue to suffer from the reduction in sales of movies to the various television distribution channels. The Company is seeking ways to increase such sales, and in this regard is examining the option of operating its own television film channel to be distributed through local cable and satellite operators. In Israel, the Company's overall distribution results have also been hurt by the Company's independent film (non-major studios) distribution activities, which have been less successful in comparison to the previous year.

*DVD rental and sale activities*

During the fourth quarter of 2009, the Company decided to close the DVD distribution operations both in Hungary and in the Czech Republic due to ongoing poor performance and uncertain future prospects. In particular, the decision to close these operations in Central and Eastern Europe was further influenced by the determination by one of the studios, which the Company represented in this line, not to renew its DVD distribution agreement with the Company. These operations, however, accounted for an operating profit of EUR 821 thousand during 2008 and an operating loss of EUR 1,503 thousand during 2009.

## Overview of results

The Company's net income for 2009 was EUR 24,426,000. An analysis of net income is shown below.

| | For the year ended 31 December 2009 | 2008 restated [1] |
|---|---|---|
| | EUR (thousands, except per share data) | |
| **Continuing operations** | | |
| Revenues | **211,561** | 178,952 |
| Operating costs, excluding depreciation and amortisation | **154,207** | 129,614 |
| **Gross result** | **57,354** | 49,338 |
| General and administrative expenses | **10,967** | 9,947 |
| **EBITDA** [2] | **46,387** | 39,391 |
| Depreciation and amortisation | **16,168** | 17,549 |
| **Operating profit** | **30,219** | 21,842 |
| Financial income | **847** | 1,475 |
| Financial expenses | **(2,712)** | (4,057) |
| Loss on disposals, write-off of other investments and other costs | **(128)** | (199) |
| **Net income before taxation** | **28,226** | 19,061 |
| Income tax expense benefit | **(2,455)** | (1,344) |
| **Net income from continuing operation** | **25,771** | 17,717 |
| **Discontinued operations** | | |
| Loss from discontinued operations | **(1,908)** | (1,543) |
| Non -controlling interests related to continued operations | **517** | 264 |
| Non -controlling interests related to discontinued operations | **46** | 1,218 |
| **Net income attributable to equity holders of the parent company** | **24,426** | 17,656 |
| *Net earnings per ordinary share of EUR 0.01 each (basic and diluted)* | **0.48** | 0.35 |

[1] Reclassified to show the discontinued DVD rental-sale business separately from the continuing operations.
[2] Earnings Before Interest, Taxation, Depreciation and Amortisation. Under this definition, gains and losses on disposals and write-off of other assets as well as currency exchange results are also not included in EBITDA.

## Revenues

Total revenues increased by 18.2% from EUR 179.0 million during the year ended 31 December 2008 to EUR 211.6 million during the year ended 31 December 2009.

Theatre operating revenues increased by 11.5% from EUR 154.7 million during the year ended 31 December 2008 to EUR 172.5 million during the year ended 31 December 2009. The increase in theatre revenues mainly resulted from an increase in the number of admissions, driven mainly by the contribution of new cinemas opened in 2008 and in 2009, and strong supply of movies in most territories. The devaluation of the local currencies in most countries of operation, however, has offset the larger part of this growth. In Poland, the Company's main country of operation, for example, theatre operating revenues grew in local currency by 28.9%, while in Euro terms it increased by only 4.7%.

Distribution operating revenues decreased by 3.5% from EUR 14.4 million during the year ended 31 December 2008 to EUR 13.9 million during the year ended 31 December 2009. This can be explained as the net effect of decrease in distribution income in Poland, driven mainly by the devaluation of the local currency, and an increase in distribution revenues in Hungary due to strong supply of movies.

Other revenues, which primarily include real estate activities, increased from EUR 9.9 million during the year ended 31 December 2008 to EUR 25.2 million during the year ended 31 December 2009. This increase was mainly attributed to the sale of the Company's interest in Mall of Plovdiv in March 2009 as described above. This increase was not affected by changes in the value of currencies, as revenues and expenses were fixed in Euros. The revenue generated during the year ended 31 December 2008 under 'Other revenues' was primarily ascribed to the revaluation of the Company's interest in the Mall of Russe.

## Operating costs

Operating costs, excluding depreciation and amortisation, increased by 19.0% from EUR 129.6 million during the year ended 31 December 2008 to EUR 154.2 million during the year ended 31 December 2009. This increase resulted primarily from the net effect of:

- an increase in theatre operating expenses primarily explained by the increase in theatre revenues as described above. Theatre operating expenses, excluding depreciation and amortization, as a percentage of total theatre revenue remained at a similar level: 73.7% and 74.3% for the year ended 31 December 2009 and the year ended 31 December 2008, respectively;

- a decrease in distribution operating expenses as a result of the decrease in revenues as described above. Distribution operating expenses, excluding depreciation and amortisation, as a percentage of total distribution revenue decreased to 96.3% for the the year ended 31 December 2009, from 98.0% for the year ended 31 December 2008;

- an increase in other operating expenses which is primarily explained by an increase in other revenues as described above. Other operating expenses, excluding depreciation and amortisation, as a percentage of total other revenue increased to 54.5% for the year ended 31 December 2009, from 5.9% for the year ended 31 December 2008. This is primarily due to the real estate sale in Plovdiv, Bulgaria, in 2009 and the fact that no similar sale transaction was recorded in the year ended 31 December 2008.

## General and administrative expenses

General and administrative expenses increased by 10.25% from EUR 9.9 million for the year ended 31 December 2008 to EUR 11.0 million during the year ended 31 December 2009. The increase is mainly a result of the increase in the management bonus accrual in line with the increase in the Company's pre-tax profits and further increase in the activities of the Company. General and administrative expenses as a percentage of total revenue was down: 5.2% for the year ended 31 December 2009 in comparison to 5.6% for the year ended 31 December 2008.

## EBITDA

As a result of the factors described above, the Earnings before Interest Taxation Depreciation and Amortisation (EBITDA) increased by 17.8% from EUR 39.4 million for the year ended 31 December 2008 to EUR 46.4 million for the year ended 31 December 2009.

## Depreciation and amortisation

Depreciation and amortisation expenses decreased by 7.9% from EUR 17.5 million for the year ended 31 December 2008 to EUR 16.2 million for the year ended 31 December 2009. This decrease is mainly due to the full depreciation of the fixed assets related to the closing of the Arena Multiplex in Israel during the year ended 31 December 2008 (with no such similar event occurring during the year ended 31 December 2009), and the devaluation of local currencies against the Euro in each of the Company's territories, except for Bulgaria, partly offset by an increase in depreciation due to newly opened theatres.

## Operating profit

As a result of the factors described above, the operating profit increased by 38.4% from EUR 21.8 million during the year ended 31 December 2008 to EUR 30.2 million during the year ended 31 December 2009.

## Financial income/expense

The balance of financial income and expenses resulted in a net expense of EUR 1.9 million during the year ended 31 December 2009 compared to a net expense of EUR 2.6 million during the year ended 31 December 2008.

The decrease is mainly due to decrease in bank debt related to the financing of operational assets.

## Disposals, write-off of other investments and other costs

Loss on disposals, write-off of other investments and other costs remained at a similar level: EUR 0.1 and EUR 0.2 million during the year ended 31 December 2009 and the year ended 31 December 2008, respectively.

## Income tax

Income tax amounts to EUR 2.5 million during the year ended 31 December 2009 compared to EUR 1.3 million during the year ended 31 December 2008. The income tax expense as a percentage of profit before income tax was 8.7% for the year ended 31 December 2009 compared to a 7.1% for the year ended 31 December 2008.

### Non-controlling interests

Non-controlling interests for the year ended 31 December 2009 and 31 December 2008 comprise the share of minority shareholders in losses from subsidiaries that are not 100% owned by the Company (EUR 0.6 million and EUR 1.5 million, respectively).

### Net income

As a result of the factors described above, the Company realised a net income of EUR 24.4 million during the year ended 31 December 2009 compared to net income of EUR 17.7 million during the year ended 31 December 2008.

## Financial condition

### Liquidity and capital resources

The Company funds its day-to-day operations principally from the cash flow provided by its operating activities. Such cash flow (not including changes in working capital) totalled EUR 41.2 million and EUR 29.7 million for the years ended 31 December 2009 and 2008, respectively. The difference between the Company's net income and its cash flow from operating activities (excluding the changes in working capital) is principally due to the Company's depreciation and amortisation expenses of EUR 16.3 million and EUR 18.4 million in 2009 and 2008, respectively, which are non-cash expenses.

### Capital expenditure

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

The Company's capital expenditures (including investment in subsidiary companies and net of proceeds from investments sold) aggregated EUR 46.7 million and EUR 77.2 million during 2009 and 2008, respectively. The Company has funded its capital expenditures principally from cash flow generated by its operating activities and bank borrowings.

### Cash flows from financing activities

The Company's net cash flow provided by financing activities for the year ended 31 December 2009 amounted to EUR 5.4 million which compares to a net cash inflow provided by financing activities during the year ended 31 December 2008 of EUR 50.2 million. The cash inflow in respect of financing activities for the year ended 31 December 2009 is mostly explained by the proceeds from new long-term loans assumed (EUR 55.7 million) partly offset by a repayment of long term loans (EUR 29.3 million) and a repayment of short-term bank credit (EUR 20.8 million).

The large amount of cash flow provided by financing activities for the year ended 31 December 2008 was mainly explained by the proceeds from new long term loans assumed (EUR 37.8 million) and an increase in short-term bank credits (EUR 16.0 million) partly offset by a repayment of long-term loans (EUR 4.6 million).

### Asset and capital structure

The Company has historically financed the majority of its development to date through loans from Bank Leumi in Israel. The Company's local subsidiaries in Central Europe, mainly in Poland, have financed a growing part of their projects using financing provided by local banks, against which securities have been provided such as mortgages on the assets of the financed projects, a pledge of the shares in local subsidiaries and assignments of the local subsidiaries revenues and insurance policies.

### Debt and operational debt

As of 31 December 2009, the Company's total debt to banks amounted to EUR 106.2 million (31 December 2008: EUR 101.4 million). Taking into account the Company's available cash position at 31 December 2009 amounting to EUR 22.4 million (31 December 2008: EUR 11.8 million), the net debt position of the Company amounted to EUR 83.8 million at the end of 2009 (end of 2008: EUR 89.6 million). Out of this net debt, EUR 3.1 million has been used to finance non-operational assets and EUR 73.5 million in real estate under development. The Company's non-operational assets consist mainly of investments in theatres under development (EUR 3.1 million) and investments in non-operational IMAX® and cinema equipment (EUR 0.06 million). The Company's real estate under development consists of investment in the real estate projects in Bulgaria, namely Mall of Russe and Mall of Stara Zagora.

### Employees

The average number of personnel employed by the Company and its subsidiaries – on a fulltime equivalent basis – increased from 1,943 in 2008 to 2,153 in 2009. The increase is attributable to an increase of personnel in Central Europe largely as a result of expanded activities in that region, mainly in Poland and Hungary.

### Research and development

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

## Subsequent Events: sale of Bulgarian Real Estate Development Business

Subsequent to the end of 2009, the Company signed a Memorandum of Understanding with its controlling shareholder, Israel Theatres Ltd., to sell all of its interests in real estate development projects and related activities in Bulgaria to Israel Theatres for approximately EUR 85 million. The business to be transferred includes (1) the Mall of Russe project in the city of Russe, which is in an advanced construction stage and is expected to open in 2010, (2) the Mall of Stara Zagora, which is still in its planning stage, and (3) the local management company, RESB EOOD, which is responsible for building and leasing these assets.

Under the proposed transaction, the Company will agree not to engage in any real estate development business in Bulgaria so long as Israel Theatres remains active in its real estate activities in Bulgaria. Israel Theatres has agreed to assume all of the Company's outstanding real estate development related obligations in Bulgaria, including completing its post-sale commitments relating to the Mall of Plovdiv, which, as described earlier, the Company sold in 2009. After the sale of the two projects, the Company will concentrate its activities on cinema exhibition, film distribution and other related activities in Bulgaria.

The purchase price is based on a valuation performed by an internationally recognised third party valuator for both the properties in Russe and Stara Zagora, which was separately obtained by the Company in connection with the preparation of its 2009 audited financial statements. As a result of the transaction, the Company expects to recognise a further gain of approximately EUR 3.7 million upon the sale of these two properties, which is in addition to the profit of approximately EUR 7 million, which was previously recognised by the Company in connection with the Bulgarian properties at the end of the second quarter of 2008 following an earlier external valuation.

As per the Memorandum of Understanding, Israel Theatres will pay approximately EUR 70 million of the purchase price at the closing of the transaction. with the remainder, an approximate amount of EUR 15 million, will be paid nine months after the opening of Mall of Russe. In no event, however, later than eighteen months following the closing of the transaction. In connection with Israel Theatres' securing financing for the transaction, the Company shall agree to refrain from borrowing additional funds if such borrowings would result in Israel Theatres, on a fully consolidated basis (together with the Company), breaching agreed upon EBITDA to debt ratios. This covenant is not expected to impact the Company's current cinema development plans. This covenant will remain in force as long as Israel Theatres remains the majority shareholder in the Company, or until Israel Theatres has repaid the debt it is assuming for financing the transaction.

In addition, the sale and purchase agreement provides that Israel Theatres will pay to the Company a percentage of any gains it realises from selling the two Bulgarian real estate assets at any time within three years after the closing date.

The Company originally undertook real estate activities in Bulgaria (and before that in Poland) in order to accelerate its theatre development in Bulgaria (and, in general, throughout Central and Eastern Europe). The Company now believes that such activities are no longer necessary in Bulgaria, as the Company's development plans have matured and its business is progressing well without the need for active real estate development. The Company's original plan was to replicate what it had done in Poland and to sell part or all of its Bulgarian real estate assets during their construction phase, as it was able to do with the Malls of Plovdiv and Sophia, its first two development projects in Bulgaria. Current market conditions, however, are now making such sales very difficult. As Israel Theatres already has real estate interests in Bulgaria and in the region in general, and has a longer and more focused history on real estate development in general, the Company and Israel Theatres both believe it will be in their respective companies' and shareholders' best interest now to move the real estate activities under the Israel Theatres umbrella, while letting the Company concentrate on expanding its movie chain.

The Company will continue to be opportunistic in connection with its international theatre development plans and may consider real estate development projects in other territories from time to time as serving the best interests of developing the Company's movie exhibition and distribution businesses in such territories.

In addition to realising certain gains from this transaction, the proceeds of the transaction will be used to substantially reduce the Company's debt. The Company intends to use the excess cash and freed up leverage to fund the expansion of the Company's movie theatre activities, both in its current regions of operation and, potentially, into new geographies.

The transaction remains subject to Israel Theatres finalising an agreement with Bank Leumi to finance the transaction, the Company's Supervisory Board approval and completion of definitive documentation.

As the sale of the Bulgarian projects qualifies as a transaction with a related party – Israel Theatres is the majority shareholder of the Company – and also qualifies as a transaction constituting a conflict of interest with the Management Board as described under Principle II.3 of the Dutch Corporate Governance Code – two out of three members of the Management Board are (indirectly) shareholders of Israel Theatres and thereby of the Company – the Supervisory Board will form a special committee comprising the independent Supervisory Directors of the Company. This committee will, after careful review, vote on the transaction and where necessary represent the Company in the transaction, in order to ensure that transaction is at arm's length and, moreover, to ensure that best provisions of the Dutch Governance Code in respect of conflicts of interest will be complied with.

Execution of definitive agreements and the closing of the transaction are expected to take place prior to the end of March 2010.

Below, the Company's condensed consolidated statement of financial position at 31 December 2009, as well as the Company's leverage and gearing ratios as at 31 December 2009 are presented on a pro forma basis. This information is being provided to give a better understanding of what the Company's consolidated financial position, its leverage and its gearing ratios might have looked like, had the sale of the real estate development assets occurred on 31 December 2009.

## Condensed consolidated statement of financial position

| | 31 December 2009 (audited*) | Effect (**) of the sale transaction (unaudited) | 31 December 2009 (pro forma - unaudited) |
|---|---|---|---|
| | | EUR (thousands) | |
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Investment properties | 42,281 | (42,281) | - |
| Other non-current assets | 205,372 | (698) | 204,674 |
| **Total non-current assets** | **247,653** | **(42,979)** | **204,674** |
| **CURRENT ASSETS** | | | |
| Receivable from related parties | 427 | 14,960 | 15,387 |
| Assets classified as held for sale | 37,924 | (37,924) | - |
| Cash and short term deposits | 22,627 | (250) | 22,377 |
| Other current assets | 41,055 | (7,185) | 33,870 |
| **Total current assets** | **102,033** | **(30,399)** | **71,634** |
| **TOTAL ASSETS** | **349,686** | **(73,378)** | **276,308** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Total equity attributable to equity holders of the Company | 183,796 | 3,666 | 187,462 |
| Non-controlling interest | (3,987) | - | (3,987) |
| **TOTAL EQUITY** | **179,809** | **3,666** | **183,475** |
| **LONG-TERM LIABILITIES** | | | |
| Long-term loans, net of current portion | 93,620 | (57,346) | 36,274 |
| Other long-term liabilities | 12,021 | (1,087) | 10,934 |
| **Total long-term liabilities** | **105,641** | **(58,433)** | **47,208** |
| **CURRENT LIABILITIES** | | | |
| Short-term borrowings | 12,545 | (8,000) | 4,545 |
| Other current liabilities | 51,691 | (10,611) | 41,080 |
| **Total current liabilities** | **64,236** | **(18,611)** | **45,625** |
| **Total liabilities** | **169,877** | **(77,044)** | **92,833** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | **349,686** | **(73,378)** | **276,308** |

*) Extracted from the Consolidated Statement of Financial Position as of 31 December 2009.
**) The amounts stated under 'Effect of the sale transaction' exclude further investments after 31 December 2009 which however are included in the above Memorandum of Understanding description.

## Gearing ratio and leverage

| | 31 December 2009 (audited*) | Effect of the sale transaction (unaudited) | 31 December 2009 (pro forma - unaudited) |
|---|---|---|---|
| | | EUR (thousands) | |
| Bank debt: | | | |
| Long-term borrowings, including current portion | 103,135 | (65,346) | 37,789 |
| Short-term bank credit | 3,030 | - | 3,030 |
| Total debt | 106,165 | (65,346) | 40,819 |
| Cash and cash equivalents | (22,417) | 250 | (22,167) |
| **Net debt** | **83,748** | **(65,096)** | **18,652** |
| Construction in progress | (3,060) | - | (3,060) |
| Cinema equipment not operated yet | (60) | - | (60) |
| Net debt financing assets in operation | 80,628 | (65,096) | 15,532 |
| Total equity attributable to equity holders of the Company | 183,796 | 3,666 | 187,462 |
| **Total capital employed** | **264,424** | **(61,430)** | **202,994** |
| **Gearing ratio** | 45.6% | - | 9.9% |
| **Leverage** | 31.7% | - | 9.2% |

*) Extracted from the Consolidated Statement of Financial Position as of 31 December 2009.

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

# Outlook for the year 2010 *

In spite of the very challenging economic environment throughout the Company's countries of operation, 2009 proved to be a good year for the Company, with a strong supply of movies supporting solid results in the Company's territories.

The beginning of 2010 appears to be building on the success of 2009. January 2010 proved to be a record month for the Company, with ticket sales for the blockbuster Avatar breaking records in many of the Company's territories. In addition, a projected strong pipeline of movies for the remainder of the year, including an increased supply of 3-D movies, is expected to continue to generate healthy ticket sales.

While the current real estate and financial crisis in the various countries in which the Company operates, is impacting the speed of realisation of the Company's development plans.The Company plans to open during 2010 approximately 9 multiplexes (about 100 screens) as follows: 6 cinemas in Romania, 2 cinemas in Poland and 2 cinemas in Bulgaria

The Company continues to have binding commitments for an additional 42 sites (representing approximately 426 screens) including 29 sites with 279 screens in Romania, and is in advanced negotiations in respect of a further number of sites. However, because the mall opening dates are dependent on the mall developers and there is a continuing tendency in the Romanian market to complete mall construction behind schedule, it remains difficult for the Company to accurately estimate the opening dates of its projects. This issue has been particularly exacerbated by the ongoing regional slowdown in real estate development brought on by the past two years' worldwide financial and real estate crisis, during which period some of the Company's real estate projects were having difficulties in securing financing necessary to commence construction.

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

Upon completion of the projects currently in the pipeline, Romania will become the Company's second largest country in terms of number of screens in operation, exceeded only by Poland. All of the planned Romanian theatres are located in shopping centers and will be leased.

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

## Outlook for the year 2010 (cont'd)

While the Company's management currently believes that the existing trend of strong admissions will continue for the foreseeable future, there can be no assurance that the Company will not be materially adversely impacted if the nascent worldwide economic recovery remains weak or is not sustained. Continued softness in consumer spending, even in light of a modest economic rebound, could result in an ongoing weakness in 'mall traffic', which has historically supported theatre admissions. In addition, if consumers continue to have considerably less disposable income, discretionary entertainment choices, such as movie going, could be adversely impacted. Even if movie going itself is not materially adversely impacted, movie goers could determine to spend less money for food and drinks at the Company's high-margin concession stands. Moreover, advertisers could decrease their use of the Company's expanding theatre and screen advertising services.

Management has noted, however, throughout years of economic distress, movie going often increases. Consumers desire to spend their smaller pools of discretionary funds on relatively inexpensive forms of 'escapist' entertainment such as movie going. The Company has seen very strong admissions trends through the date of this report and continues to see no evidence of any downturn in theatre visits resulting from external economic factors.

# Additional information to the report

***Major shareholders***

To the best of the Company's knowledge and in accordance with official notifications received by the Company as of the date of publication of the annual report for the year ended 31 December 2009 (15 March 2010), the following shareholders are entitled to exercise over 5% of voting rights at the General Meeting of Shareholders in the Company:

| | **As of 15 March 2010 Number of shares/% of shares.** (3) | **Increase/ (decrease) Number of shares** | **As of 31 December 2009 Number of shares/% of shares** | **Increase/ (decrease) Number of shares** | **As of 31 December 2008 Number of shares/% of shares** |
|---|---|---|---|---|---|
| I.T. International Theatres Ltd. (1) | 32,709,996 / 64.32% | - | 32,709,996 / 64.35% | - | 32,709,996 / 64.35% |
| Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK | 6,498,457 /12.78% | - | 6,498,457 /12.78% | 1,262,088 | 5,236,369 /10,30% |
| ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny | 2,700,000 / 5.31% | - | 2,700,000 / 5.31% | - | 2,700,000 / 5.31% |
| BZ WBK TFI SA(2) | 2,661,049 /5.23% | - | 2,661,049 /5.23% | - | 2,661,049 /5.23% |
| BZ WBK AIB Asset Management S.A.(2) | 2,542,345 / 5.00% | - | 2,542,345 / 5.00% | - | 2,542,345 / 5.00% |

(1) In addition, Israel Theatres Ltd., the shareholder who holds 100% of I.T. International Theaters Ltd., holds 104,988 shares in Cinema City International N.V. (representing 0.2% of the shares).

(2) BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., with its registered office in Poznań has engaged BZ WBK AIB Asset Management S.A. to manage the investment funds until now managed by the BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. ('Funds').

(3) On 15 February 2010, the Company issued 25,000 new ordinary shares to facilitate the excercise of share options as part of the Company's long term incentive plan. The number of shares issued and outstanding therfore increased to 50,859,000 as of 15 February 2010.

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

- DKG Investment Ltd.: 41.13%, this concerns a holding company through which the shares in I.T. International Theatres Ltd. owned by two members of the Management Board (see below) are jointly held
- BZ WBK AIB Asset Management SA: 5%. .

***Changes in ownership of shares and rights to shares by Management Board members during 2009 and until the date of publication of the report***

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

| | **As of 15 March 2010 Number of shares/ % of shares** | **Increase/ (decrease) Number of shares** | **As of 31 December 2009 Number of shares/ % of shares** | **Increase/ (decrease) Number of shares** | **As of 31 December 2008 Number of shares/ % of shares** |
|---|---|---|---|---|---|
| **Moshe Greidinger*** | 11,603,379 / 22.82% | - | 11,603,379 / 22.83% | - | 11,603,379 / 22.83% |
| **Amos Weltsch** | none | - | none | - | none |
| **Israel Greidinger*** | 11,603,379 / 22.82% | - | 11,603,379 / 22.83% | - | 11,603,379 / 22.83% |

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

# Additional information to the report (cont'd)

***Rights to shares***
The members of the Management Board did not own or receive any rights to shares in the Company during the period 31 December 2009 until 15 March 2010.

***Changes in ownership of shares and rights to shares by Supervisory Board members during 2009 and until the date of publication of the report***
The members of the Supervisory Board did not own any shares and/or rights to shares in the Company during the period 31 December 2009 until 15 March 2010.

***Changes in the composition of the Supervisory Board***
None

## *Capital structure, restrictions regarding shareholder rights and issue of new shares in the Company*

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

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

In 2009, the Management Board assessed the effectiveness of the system of internal controls for financial reporting. During the investigation on which this assessment was based, no shortcomings were identified that might possibly have a material impact on the financial reporting. On the basis of the results of the above assessment and the risk analyses that were carried out at the Company within the framework of governance and compliance, the Management Board is of the opinion - after consulting with the Audit Committee and with the approval of the Supervisory Board - that the system of internal controls provides a reasonable degree of certainty that the financial reporting contains no inaccuracies of material importance. An inherent element in how people and organisations work together in a dynamic world is that systems of internal control cannot provide an absolute degree (though they can provide a reasonable degree) of certainty as regards the prevention of material inaccuracies in the financial reporting and the prevention of losses and fraud.

In our view the system of internal controls, focused on the financial reporting, functioned effectively over the past year. There are no indications that the system of internal controls will not function effectively in 2010.

# Additional information to the report (cont'd)

***Representation concerning financial statements and report of the Management Board***

The Management Board confirms that, to the best of its knowledge, the Consolidated Financial Statements, together with comparative figures, have been prepared in accordance with applicable IFRS. The Consolidated Financial Statements, together with the stand alone Company Financial Statements give a true and fair view of the state of affairs of the Group at 31 December 2009 and of the net result for the year then ended.
The Management Board report in this annual report gives a true and fair view of the situation on the reporting date and of developments during the financial year, and includes a description of the major risks and uncertainties.

***Representation concerning election of the Company's auditor***

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

***Other***

As of 31 December 2009, the Group has issued guarantees for loans that in total amount to EUR 12 million and PLN 188 (EUR 45.5) million in connection with loans provided to subsidiaries.

As of 31 December 2009, the Group has no litigations for claims or liabilities that in total exceed 10% of the Group's equity.

The following net movements in the Group's main provisions took place during the year ended 31 December 2009:

- an increase in the provision for deferred tax liabilities of EUR 2,731,000.
- an increase in the provision for accrued employee retirement rights of EUR 241,000.
- a decrease in the provision related to onerous lease contracts of EUR 1,608,000.

**The Management Board**

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

**Rotterdam, 15 March 2010**

## Consolidated Statement of Financial Position

| | Note | 31 December 2009 | 31 December 2008 (Restated*) | 1 January 2008 (Restated*) |
|---|---|---|---|---|
| | | EUR (thousands) | | |
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| **Intangible assets** | *7* | **1,020** | 1,285 | 1,041 |
| **Property and equipment** | *8* | **201,781** | 182,499 * | 183,101* |
| **Deferred tax asset** | *30* | **2,493** | 1,055 | 1,210 |
| **Investment properties** | *9* | **42,281** | 29,382 * | 12,155* |
| **Foreign currency exchange contracts** | *32* | **78** | 1,894 | - |
| **Total non-current assets** | | **247,653** | 216,115 | 197,507 |
| **CURRENT ASSETS** | | | | |
| **Inventories** | *10* | **5,082** | 4,859 | 4,380 |
| **Receivables** | | | | |
| Trade accounts receivable | *11* | **15,553** | 16,415 | 13,392 |
| Receivable from related parties | *31* | **427** | 750 | 299 |
| Income taxes receivable | | **258** | 355 | 876 |
| Other accounts receivable and prepaid expenses | *12* | **18,497** | 14,294 | 16,084 |
| ***Total receivables*** | | **34,735** | 31,814 | 30,651 |
| **Financial assets** | | | | |
| Foreign currency exchange contracts | *32* | **1,496** | 1,179 | - |
| Marketable securities | | **169** | 1,358 | 60 |
| Assets classified as held for sale | *13* | **37,924** | 33,564 | 2,400 |
| ***Total financial assets*** | | **39,589** | 36,101 | 2,460 |
| **Cash and short-term deposits** | | | | |
| Cash and cash equivalents | *14* | **22,417** | 11,780 | 8,012 |
| Short-term bank deposits - collateralised | *15* | **210** | 345 | 349 |
| Short-term bank deposits | | **-** | 591 | - |
| ***Total cash and short-term deposits*** | | **22,627** | 12,716 | 8,361 |
| **Total current assets** | | **102,033** | 85,490 | 45,852 |
| **TOTAL ASSETS** | | **349,686** | 301,605 | 243,359 |

The notes on pages 45 to 104 are an integral part of these consolidated financial statements.

*Certain amounts shown under Assets do not correspond to the 2008 financial statements and reflect reclassifications made between ‘Property and equipment’ and ‘Investment properties’ as detailed in Notes 2A and 3.

## Consolidated Statement of Financial Position

| | Note | 31 December 2009 | 31 December 2008 | 1 January 2008 |
|---|---|---|---|---|
| | | EUR (thousands) | | |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | | |
| **SHAREHOLDERS' EQUITY** | *16* | | | |
| Share capital | | **508** | 508 | 508 |
| Share premium reserve | | **90,377** | 90,377 | 90,377 |
| Accumulated currency translation adjustment | | **(4,417)** | (4,852) | 11,605 |
| Hedge reserve | | **1,274** | 2,483 | - |
| Retained earnings | | **96,054** | 71,510 | 53,681 |
| **Total equity attributable to equity holders of the Company** | | **183,796** | 160,026 | 156,171 |
| **Non-controlling interests** | *18* | **(3,987)** | (3,483) | (1,908) |
| **Total equity** | | **179,809** | 156,543 | 154,263 |
| **LONG-TERM LIABILITIES** | | | | |
| Long-term loans, net of current portion | *21* | **93,620** | 67,182 | 34,802 |
| Accrued employee retirement rights, net | *19* | **587** | 346 | 217 |
| Deferred tax liabilities | *30* | **6,063** | 3,332 | 1,968 |
| Provision related to onerous lease contracts | *20* | **349** | 1,957 | 3,565 |
| Financial lease | *24(1)h* | **1,228** | 1,398 | 1,467 |
| Other long-term liabilities | | **3,794** | 1,828 | 1,070 |
| **Total long-term liabilities** | | **105,641** | 76,043 | 43,089 |
| **CURRENT LIABILITIES** | | | | |
| Short-term borrowings | *22* | **12,545** | 34,177 | 18,575 |
| Trade accounts payable | | **12,655** | 13,007 | 11,320 |
| Payable to related parties | *31* | **137** | 1,334 | 428 |
| Employee and payroll accruals | | **1,879** | 1,694 | 1,543 |
| Other accounts payable | *23* | **37,020** | 18,807 | 14,141 |
| **Total current liabilities** | | **64,236** | 69,019 | 46,007 |
| **Total liabilities** | | **169,877** | 145,062 | 89,096 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **349,686** | 301,605 | 243,359 |

The notes on pages 45 to 104 are an integral part of these consolidated financial statements.

## Consolidated Income Statement

| | Note | 2009 | 2008 * |
|---|---|---|---|
| | | For the year ended 31 December | |
| | | EUR (thousands, except per share data) | |
| **Continuing operations** | | | |
| Revenues | *26* | **211,561** | 178,952 |
| Operating costs | *27* | **(170,375)** | (147,163) |
| **Gross margin** | | **41,186** | 31,789 |
| General and administrative expenses | | **(10,967)** | (9,947) |
| **Operating profit** | | **30,219** | 21,842 |
| Financial income | *28* | **847** | 1,475 |
| Financial expenses | *28* | **(2,712)** | (4,057) |
| Net finance expenses | | **(1,865)** | (2,582) |
| Loss on disposals, and write-off of other investments | *29* | **(128)** | (199) |
| **Operating income before taxation** | | **28,226** | 19,061 |
| Income tax expense | *30* | **(2,455)** | (1,344) |
| **Net income from continuing operations** | | **25,771** | 17,717 |
| **Discontinued operations** | | | |
| Loss from discontinued operations | *25* | **(1,908)** | (1,543) |
| **Net income before minority interests** | | **23,863** | 16,174 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **24,426** | 17,656 |
| Non-controlling interests related to continuing operations | *18* | **(517)** | (264) |
| Non-controlling interests related to discontinued operations | *18* | **(46)** | (1,218) |
| **Net income before non-controling interests** | | **23,863** | 16,174 |
| **Earnings per share** | | | |
| Net earnings per share (basic and diluted) | *17* | **0.48** | 0.35 |
| ***Continuing operations*** | | | |
| Net earnings per share (basic and diluted) | *17* | **0.48** | 0.35 |

The notes on pages 45 to 104 are an integral part of these consolidated financial statements.

* Reclassified to show the discontinued operation of the DVD distribution business (see Note 25).

## Consolidated Statement of Comprehensive Income

| | For the year ended 31 December | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| **Net income for the year** | **23,863** | 16,174 |
| **Other comprehensive income** | | |
| Foreign exchange translation differences | **494** | (16,550) |
| Effective portion in fair value of cash flow hedges, net of tax * | **(1,209)** | 2,483 |
| **Other comprehensive income, net of tax** | **(715)** | (14,067) |
| **Total comprehensive income for the year** | **23,148** | 2,107 |
| **Attributable to:** | | |
| Equity holders of the Company | **23,652** | 3,682 |
| Non-controlling interest | **(504)** | (1,575) |
| **Total comprehensive income for the year** | **23,148** | 2,107 |

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

The notes on pages 45 to 104 are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Shareholders' Equity

| | Share capital | Share premium | Translation reserve | Hedge reserve | Retained earnings | Total | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | EUR (thousands) | | | | | | | |
| Balance as of 1 January 2008 | 508 | 90,377 | 11,605 | - | 53,681 | 156,171 | (1,908) | 154,263 |
| Share-based payments under the stock option plan | - | - | - | - | 173 | 173 | - | 173 |
| Net income for the year 2008 | - | - | - | - | 17,656 | 17,656 | (1,482) | 16,174 |
| Foreign currency translation adjustment | - | - | (16,457) | - | - | (16,457) | (93) | (16,550) |
| Effective portion of changes in fair value of cash flow hedges, net of tax* | - | - | - | 2,483 | - | 2,483 | - | 2,483 |
| Balance as of 31 December 2008 | 508 | 90,377 | (4,852) | 2,483 | 71,510 | 160,026 | (3,483) | 156,543 |
| **Share-based payments under the stock option plan** | **-** | **-** | **-** | **-** | **118** | **118** | **-** | **118** |
| **Net income for the year 2009** | **-** | **-** | **-** | **-** | **24,426** | **24,426** | **(563)** | **23,863** |
| **Foreign currency translation adjustment** | **-** | **-** | **435** | **-** | **-** | **435** | **59** | **494** |
| **Effective portion of changes in fair value of cash flow hedges, net of tax*** | **-** | **-** | **-** | **(1,209)** | **-** | **(1,209)** | **-** | **(1,209)** |
| **Balance as of 31 December 2009** | **508** | **90,377** | **(4,417)** | **1,274** | **96,054** | **183,796** | **(3,987)** | **179,809** |

* Represents changes in fair value adjustment of cash flow hedges related to part of the Companys future transactions denominated in currencies other than the functional currency (see Note 32).

The notes on pages 45 to 104 are an integral part of these consolidated financial statements.

## Consolidated Statement of Cash Flows

| | Note | For the year ended 31 December 2009 | 2008 |
|---|---|---|---|
| | | EUR (thousands) | |
| **Cash flows from operating activities** | | | |
| Operating profit | | **30,219** | 21,842 |
| *Discontinued operation adjustment to operating profit* | | **(1,503)** | 1,353 |
| *Adjustments to reconcile net income to net cash provided by operating activities:* | | | |
| Depreciation and amortisation | *27* | **16,323** | 18,378 |
| Decrease in provision related to onerous lease contracts | *20* | **(1,608)** | (1,608) |
| Increase in accrued employee rights upon retirement, net | *19* | **249** | 115 |
| Fair value adjustment to investment property | *9* | **224** | (6,948) |
| Interest received | | **2,617** | 3,251 |
| Interest paid | | **(4,595)** | (6,207) |
| Income taxes paid | | **(708)** | (436) |
| ***Operating income before working capital*** | | **41,218** | 29,740 |
| Increase in inventories | | **(255)** | (812) |
| Decrease/(increase) in accounts receivable | | **703** | (4,334) |
| Increase in prepaid expenses | | **(6)** | (2,210) |
| Decrease/(increase) in governmental institutions | | **(3,669)** | 1,704 |
| Increase/(decrease) in long-term film distribution costs and deferred expenses | | **711** | (140) |
| Increase in accounts payable | | **11,215** | 6,586 |
| Increase in employee and payroll accruals | | **214** | 136 |
| Increase in payable to related parties | | **782** | 895 |
| Decrease/(increase) in receivables from related parties | | **308** | (326) |
| Decrease in income received in advance | | **-** | (33) |
| Equity share-based payment | *16* | **118** | 173 |
| **Net cash from operating activities** | | **51,339** | 31,379 |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment and other assets* * | | **(29,803)** | (36,504) |
| Investment in intangible fixed assets ** | *7* | **(170)** | (666) |
| Investments in investment properties ** | *9* | **(14,373)** | (10,279) |
| Acquisition of held for sale financial assets | | **(17,557)** | (7,729) |
| Acquisition of interests in subsidiaries | | **-** | (20,990) |
| Proceeds from disposition of property and equipment and intangible assets | | **1,308** | 533 |
| Short-term bank deposits – (collateralised)/paid | | **730** | (587) |
| Proceeds from the sale of held for sale*** | | **11,950** | - |
| loans with third parties | | **-** | 276 |
| Changes in marketable securities | | **1,188** | (1,294) |
| **Net cash used in investing activities** | | **(46,727)** | (77,240) |

The notes on pages 45 to 104 are an integral part of these consolidated financial statements.

* Taking into account movements in Investment creditors
** Taking into account movements in other non-cash activities.
*** remaining proceeds amounting to aproximatly EUR 10 million as a result of the sale are classified in operating activities.

## Consolidated Statement of Cash Flows

| | Note | For the year ended 31 December 2009 | 2008 |
|---|---|---|---|
| | | EUR (thousands) | |
| **Cash flows from financing activities** | | | |
| Proceeds from long-term loans | | **55,682** | 37,765 |
| Repayment of long-term loans | | **(29,293)** | (4,562) |
| (Decrease)/increase in long-term payables | | **(168)** | 1,032 |
| Short-term bank credit, net (decrease)/increase | | **(20,781)** | 15,956 |
| **Net cash provided by financing activities** | | **5,440** | 50,191 |
| Foreign currency exchange differences on cash and cash equivalents | | **585** | (562) |
| Increase in cash and cash equivalents | | **10,637** | 3,768 |
| Cash and cash equivalents at beginning of year | | **11,780** | 8,012 |
| **Cash and cash equivalents at end of year** | *14* | **22,417** | 11,780 |

The notes on pages 45 to 104 are an integral part of these consolidated financial statements.

## Note 1 - General and principal activities

Cinema City International N.V. ('the Company' or 'Cinema City') is incorporated in Amsterdam, the Netherlands. The address of the Company is Weena 210-212, 3012 NJ Rotterdam, the Netherlands. The accompanying Consolidated Financial Statements present the financial position, results of operations, changes in shareholders' equity and cash flows of the Company including its subsidiaries and joint ventures (together referred to as 'the Group') and the Group's interest in associates.

The shares of the Company are traded on the Warsaw Stock Exchange. As at 31 December 2009, 64.35% of the outstanding shares are held by I.T. International Theatres Ltd. ('ITIT'), incorporated in Israel (31 December 2008: 64.35%).

The Group is principally engaged in the operation of entertainment activities in various countries including Poland, Hungary, the Czech Republic, Bulgaria, Romania and Israel. The Company is also engaged in managing and establishing its own entertainment real estate projects for rental purposes, in which the Company operates motion picture theatres. In addition, the Company is involved in short-term and long-term real estate trading in Central Europe. The Company's business is dependent both upon the availability of suitable motion pictures from third parties for exhibition in its theatres, and the performance of such films in the Company's markets.

The Annual Report 2009 including the Consolidated Financial Statements of the Group for the year ended 31 December 2009 are available upon request at the Company's registered office, Weena 210-212, 3012 NJ Rotterdam, the Netherlands, or at the Company's website: www.cinemacity.nl

## Note 2 - Basis of preparation

### A. Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union as well as in accordance with article 362.9 of the Netherlands Civil Code. The Company has adopted the standards and interpretations with an effective date before 31 December 2009.

The financial statements were authorised for issue by the directors on 15 March 2010**.**

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

As the Group adopted revised IAS 40 on a retrospective basis (see Note 3) as a result of which certain comparative amounts have been reclassified to conform to the current year's presentation, a consolidated statement of financial position as at 1 January 2008 is also presented. The Group has also included notes to the consolidated statement of financial position as at 1 January 2008, as appropriate. In addition, the comparative income statement has been represented as if an operation (discontinued) during the current period had been discontinued from the start of the comparative period (see Note 25).

As a result of the adoption of revised IAS 40, the following adjustments were made to the 2008 financial information:

*As of 1 January 2008:*
Net increase in Investment properties: EUR 138 thousand
Net decrease in Property and equipment: EUR 138 thousand

*As of 31 December 2008:*
Net increase in Investment properties: EUR 2,975 thousand
Net decrease in Property and equipment: EUR 2,975 thousand

## Note 2 - Basis of preparation (cont'd)

### B. Basis of measurement

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

### C. Functional and presentation currency

The functional currencies of the operations in Central Europe are the relevant local currencies: the Bulgarian leva, the Czech crown, the Hungarian forint, the Polish zloty and the Romanian new Lei. The functional currency of the operations in Israel is the New Israeli shekel. The functional currency for the Dutch operation is the Euro.
The financial statements of foreign operations are translated from the functional currency into Euros (presentation currency) as follows:
Assets and liabilities, both monetary and non-monetary are translated at the closing exchange rate. Income statement items were translated at the prevailing transaction rates. Foreign exchange differences arising on translation have been recognised directly in equity.

### D. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions. These judgements, estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.
The following accounting policies are particularly sensitive to management estimates:
- Investment property.
- Marketable securities
- Assets classified as held for sale.
- Accounting for real estate transactions.
- Related parties transactions and disclosures.

### E. Principles of consolidation

The Consolidated Financial Statements include the accounts of the Company, its subsidiaries, and jointly controlled entities.
Subsidiaries are those enterprises which are controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases.
Jointly controlled entities are those enterprises over whose activities the Company has joint control, established by contractual agreements. The Consolidated Financial Statements include the Company's proportionate share of the enterprises' assets, liabilities, revenues and expenses with items of similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases.

## Note 2 - Basis of preparation (cont'd)

### E. Principles of consolidation (cont'd)

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

A list of the companies whose financial statements are included in the Consolidated Financial Statements and the extent of ownership and control appears in Note 37 to these financial statements.

### F. Exchange rates

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

| | Exchange rate of Euro | | | | | |
|---|---|---|---|---|---|---|
| **As of** | **Czech crown (CZK)** | **Hungarian forint (HUF)** | **Polish zloty (PLN)** | **US dollar (USD)** | **Israeli shekel (NIS)** | **Romania new lei (RON)** |
| **31 December 2009** | **26.42** | **272.65** | **4.14** | **1.43** | **5.44** | **4.25** |
| 31 December 2008 | 26.64 | 267.59 | 4.15 | 1.41 | 5.30 | 4.04 |
| **Change during the period** | **%** | **%** | **%** | **%** | **%** | **%** |
| **2009 (12 months)** | **(0.83)** | **1.89** | **(0.24)** | **1.42** | **2.64** | **5.2** |
| 2008 (12 months) | (0.11) | 4.75 | 14.33 | (4.08) | (6.36) | 11.29 |

| | Exchange rate of Euro | | | | | |
|---|---|---|---|---|---|---|
| **Average for the period** | **Czech crown (CZK)** | **Hungarian forint (HUF)** | **Polish zloty (PLN)** | **US dollar (USD)** | **Israeli shekel (NIS)** | **Romania new lei (RON)** |
| **2009 (12 months)** | **26.48** | **281.15** | **4.34** | **1.39** | **5.47** | **4.25** |
| 2008 (12 months) | 24.99 | 252.43 | 3.52 | 1.47 | 5.26 | 3.70 |
| **Change year over year** | **%** | **%** | **%** | **%** | **%** | **%** |
| **2009 (12 months)** | **5.96** | **11.38** | **23.3** | **(5.44)** | **3.99** | **14.86** |
| 2008 (12 months) | (10.04) | 0.15 | (7.12) | 7.30 | (6.57) | 10.45 |

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

## Note 3 - Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows. The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009 insofar as endorsed by the EU as of the date of approval of these financial statements:

- IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations* effective 1 January 2009.
- IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010 (early adopted).
- IFRS 3 *Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009 (early adopted) including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39.
- IFRS 7 *Financial Instruments: Disclosures* effective 1 January 2009.
- IFRS 8 *Operating Segments* effective 1 January 2009.
- IAS 1 *Presentation of Financial Statements* effective 1 January 2009.
- IAS 23 *Borrowing Costs (Revised)* effective 1 January 2009.
- IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation* effective 1 January 2009.
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009 (early adopted).
- IAS 40 *Investment property (Amended)* effective 1 January 2009.
- IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* effective for periods ending on or after 30 June 2009.
- IFRIC 13 *Customer Loyalty Programmes* effective 1 July 2008.
- IFRIC 15 *Agreements for the Construction of Real Estate* effective 1 January 2009.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* effective 1 October 2008.
- IFRIC 18 *Transfers of Assets from Customers* effective for transfers received on or after 1 July 2009.
- Improvements to IFRSs (May 2008; and April 2009, early adopted).

When the adoption of a standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below.

**IFRS 2 *Share-based Payment***
The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Group adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Group.

**IFRS 7 *Financial Instruments: Disclosures***
The amended standard requires additional disclosures on re-measurement to fair value and on liquidity risk. The fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the opening and closing balances for Level 3 fair value measurements is now required, as well as disclosure for significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures.

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

**IFRS 8** ***Operating Segments***
IFRS 8 replaces IAS 14, 'Segment reporting' and requires a 'management approach' under which segment information is identified and presented on the same basis as that used for internal reporting purposes. This has not resulted in a change in the number of reportable segments as presented in these Consolidated Financial Statements. Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board of the Company.

**IAS 1** ***Presentation of Financial Statements***
The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the Statement of Changes in Equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the Statement of Comprehensive Income) or two statements (the Income Statement and Statement of Comprehensive Income).
The Company has elected to present two statements: a (consolidated) income statement and a (consolidated) statement of comprehensive income. These Consolidated Financial Statements have been prepared under the revised disclosure requirements.

**IAS 23** ***Borrowing costs***
The revised Standard requires the capitalisation of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Revised IAS 23 did not result in a change in accounting policy of the Group.

**IAS 40** ***Investment properties***
As a result of the amendment to IAS 40 effective from 1 January 2009, the Group has changed its accounting policy in relation to investment properties. The amendment is part of the 2008 improvements to IFRS project, pursuant to which investment property under development shall be measured in accordance with IAS 40 and not in accordance with IAS 16. The Group measures its investment property according to the fair value model and therefore, as from 1 January 2009, measures its developments and land also in accordance with the fair value model. Until 31 December 2008, the investment property under development was measured at cost less impairment losses in accordance with IAS 16 and IAS 36, and was recorded under the caption 'Property and equipment'. This change in accounting policy was applied on a prospective basis and had no material impact on net profit and earnings per share. In the Consolidated Statement of Financial Position the comparative amounts for investment properties under development have been classified under 'Investment properties'.

**IFRIC 13** ***Customer Loyalty Programmes***
This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. The implementation of this interpretation did not have impact on the financial position or performance of the Group, as the Group does not maintain a loyalty programme.

Adoption of other annual improvements to IFRS did not have impact on the financial position or performance of the Group.

## Note 4 - Summary of significant accounting policies

**A. Investment in associates**

Associates are entities where the Group has significant influence over financial and operating policies. This is presumed to exist when the Group hold 20% to 50% of the voting power of an entity.
Investment in associates comprise minority interests held by the Group and is accounted for using the equity method.

**B. Share capital**

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

**C. Intangible fixed assets – excluding goodwill**

Intangible fixed assets that are acquired by the Group are stated at cost less accumulated amortisation, calculated over the estimated useful life of the assets, and after impairment losses, if any. The carrying amount of the intangible fixed assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated as the higher of net selling price and value in use. Amortisation methods, useful lives and residual values are reviewed at each reporting date.
Costs incurred in relation of the purchase of software are treated as intangible fixed assets and are usually amortised over period between three to five years.
.

**D. Property and equipment**

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

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

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

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

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

### D. Property and equipment (cont'd)

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

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

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

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

### E. Investment properties

Investment properties are those which are held either to earn rental income or for capital appreciation or for both but not for the sale in the ordinary course of business. Investment properties are stated at fair value as determined by independent external appraisers on an annual basis. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing. Any gain or loss arising from a change in fair value is recognised in the income statement. Investment properties also include – at fair value – property that is being constructed or developed for future use as investment property.

### F. Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation or depreciation and are tested for impairment annually. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds the recoverable amount. The recoverable amount is the higher of net selling price and value in use. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### G. Inventories

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

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

### H. Financial assets

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

***(a) Marketable securities***

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

***(b) Loans and receivables***

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

***(c) Available for sale financial assets***

Available for sale financial assets comprising investments that are held principally for the purpose of selling them in the short term and are thus classified as available for sale under current assets. These investments are valued at fair value or cost less impairment losses if the fair value cannot be measured reliably. The carrying amount of the available for sale financial assets is reviewed at each reporting date to determine whether there is any indication of impairment.

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

This includes derivatives. See 'Derivative financial instruments' under J.

### I. Allowance for doubtful accounts

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

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

### J. Derivative financial instruments

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

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The fair value of foreign contracts is based on the relevant current exchange rates at the reporting date. Changes in fair value of contracts signed before 1 January 2008 are accounted for in the profit and loss account. The change in the fair value of contracts signed as of 1 January 2008 onwards that are effective hedges is booked directly into equity in a separate hedge reserve net of deferred taxation. The Company designates these contracts to hedge future cash flow fluctuations deriving from differences between the EUR and the USD against local currencies. Amounts are released from the Hedge reserve to profit or loss when the future transaction is settled.

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

### K. Cash and cash equivalents

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

### L. Employee benefits-defined contribution plans

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

### M. Employee benefits-severance pay

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

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

### N. Employee benefits – share options granted

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

### O. Provision related to onerous lease contracts

During July 2002, the Group acquired a cinema chain in Poland at a discount, which was allocated to the lease agreements of the cinemas acquired. In the financial statements of the Company the discount is presented as a provision related to onerous lease contracts and is released to the income statement over the term of the lease (see also Note 20).

### P. Long-term loans and accruals and short term liabilities

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

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

For information regarding the fair value of long-term liabilities reference is made to Note 32.

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

### Q. Discontinued operations

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

### R. Assets classified as held for sale

Assets classified as held for sale (or disposal groups comprising assets and liabilities) are expected to be recovered primarily through sale rather than through continuing use. Immediately before classification as held for sale, the assets (or components of a disposal group) are valued in accordance with the Group's accounting policies. Thereafter, generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be valued in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on revaluation are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

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

## S. Revenue recognition

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

## T. Cost of revenues

(1) Cost of theatre sales include direct concession product and theatre facility costs such as employee costs, theatre rental and utilities, which are common to both ticket sales and concession operations.
(2) Cost of films distributed are capitalised until the time the films are distributed for screening. Once the films have been distributed and screening has begun, the costs are amortised at a rate equal to the ratio of revenues in the period to total estimated revenues for the films.
(3) General advertising expenses are expensed as incurred. Film advertising expenses are expensed when the film is distributed or is shown to the public.
(4) Cost of real estate sold.

## U. Net financing cost

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, and interest receivable on funds invested.
Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

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

## V. Income taxes

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

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

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

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

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

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

## W. Earnings per share

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

## X. Segment reporting

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

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

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

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

**Y. Jointly controlled entities**

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

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

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

**Z. Cash flow statement**

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

**AA. New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements:

- IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Company, as it has not made any non-cash distributions.

## Note 5 – Determination of fair values

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

(a) **Investment properties**
The fair values of investment properties are determined by independent external appraisers on an annual basis and are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing.

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

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

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

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

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

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

# Note 6 - Changes in consolidated entities

**A. Changes in consolidated and associated entities during 2009**

Forum Film Bulgaria EOOD, 100% owned by the Company, was incorporated in Bulgaria. This entity commenced its operations in January 2009 and specializes in the distribution of movies in Bulgaria.

**B. Changes in consolidated entities during 2008**

(a) MO Russe AD (formerly known as Cinema City Malls AD), is a Bulgarian company in which the Company, through its 100% subsidiary IT Sofia 2007 B.V. incorporated in the Netherlands, holds 100% of the shares. This Bulgarian company which commenced its activities in July 2007 under the name Cinema City Malls AD, owns a plot of land in Russe, Bulgaria, on which a shopping mall is being developed. At the time of its inception, the entity was jointly controlled by the Company and a third party, each owning 45% of the shares (10% was owned by the original owner of the Land).
As of the year ended 31 December 2008, when the Company acquired the 45% interest from the other joint venture partner as well as the remaining 10% interest from the original owner of the plot of land thereby increasing its interest in MO Russe AD to 100%, this subsidiary is accounted for in the Company's Consolidated Financial Statements on a fully consolidated basis.
Since the Company is seeking to sell half of its interest in the Mall of Russe to a new partner in the near future, this 50% interest in the Mall of Russe project is carried in the Company's Consolidated Statement of Financial Position as 'held for sale', whereas the other 50%, which is considered to be held as long-term investment, is accounted for as Investment property.

(b) New Age Cinema Czech S.R.O., 100% owned by the Company, was incorporated in the Czech Republic. The Company commenced its operations in June 2008 and specialises in screen advertising.

(c) M.O. Stara Zagora EOOD is a Bulgarian company in which the Company holds a 55% interest and which owns the Mall of Stara Zagora. The other 45% of the shares in M.O. Stara Zagora AD is held by third parties. As the ownership of M.O. Stara Zagora AD is jointly controlled, the interest in M.O. Stara Zagora is accounted for using the proportionate consolidation method in the Company's Consolidated Financial Statements. Since the Company is seeking to sell the other half of its interest in the Mall of Stara Zagora to a new partner in the near future, this 27.5% interest in the Mall of Stara Zagora is carried in the Company's consolidated Statement of Financial Position as 'held for sale', whereas the other 27.5% interest, which is considered to be held as long-term investment, is accounted for as investment property.

(d) RESB EOOD, 100% owned by the Company, was incorporated in Bulgaria. This entity commenced its operations in August 2008 and specialises in management of real estate and construction in Bulgaria.

# Note 7 - Intangible fixed assets

The intangible fixed assets comprise mainly investments in the development of Cinema Megaplex, software and other costs related to exclusivity rights and are stated at cost less accumulated amortisation and impairment losses, if any.

Composition:

| | Financial year 2009 | | | | |
|---|---|---|---|---|---|
| | Balance at beginning of the year | Additions during the year | Foreign currency translation adjustments | Sales and disposals | Balance at end of year |
| | EUR (thousands) | | | | |
| Cost | **2,054** | **170** | **(35)** | **(59)** | **2,130** |
| Accumulated amortisation | **(769)** | **(386)** | **9** | **36** | **(1,110)** |
| Carrying value | **1,285** | **(216)** | **(26)** | **(23)** | **1,020** |

Composition:

| | Financial year 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Balance at beginning of the year | Additions during the year | Foreign currency translation adjustments | Sales and disposals | Classification from property and equipment | Balance at end of year |
| | EUR (thousands) | | | | | |
| Cost | 1,414 | 666 | 7 | (357) | 324 | 2,054 |
| Accumulated amortisation | (373) | (335) | 2 | 149 | (212) | (769) |
| Carrying value | 1,041 | 331 | 9 | (208) | 112 | 1,285 |

**Consolidated Income Statement**

# Note 8 - Property and equipment

| | Financial year 2009 | | | | |
|---|---|---|---|---|---|
| | Balance at beginning of the year | Additions during the year (1) | Foreign currency translation adjustments | Sales and disposals | Balance at end of year |
| | EUR (thousands) | | | | |
| **Cost** | | | | | |
| Land and buildings (2) | **62,714** | **-** | **265** | **-** | **62,979** |
| Cinema equipment (2) | **98,903** | **28,326** | **278** | **(1,448)** | **126,059** |
| Leasehold improvements | **101,801** | **7,545** | **(661)** | **(10)** | **108,675** |
| Computers, furniture and office equipment | **7,181** | **786** | **(146)** | **(31)** | **7,790** |
| Vehicles | **1,645** | **206** | **(31)** | **(160)** | **1,660** |
| Video movies | **2,203** | **-** | **2** | **-** | **2,205** |
| Video machines | **-** | **-** | **-** | **-** | **-** |
| | **274,447** | **36,863** | **(293)** | **(1,649)** | **309,368** |
| **Accumulated depreciation** | | | | | |
| Land and buildings | **15,687** | **2,018** | **155** | **-** | **17,860** |
| Cinema equipment | **44,006** | **7,773** | **(106)** | **(39)** | **51,634** |
| Leasehold improvements | **26,177** | **5,192** | **(94)** | **(2)** | **31,273** |
| Computers, furniture and office equipment | **5,034** | **672** | **(95)** | **(21)** | **5,590** |
| Vehicles | **618** | **282** | **(8)** | **(83)** | **809** |
| Video movies | **426** | **-** | **(5)** | **-** | **421** |
| Video machines | **-** | **-** | **-** | **-** | **-** |
| | **91,948** | **15,937** | **(153)** | **(145)** | **107,587** |
| **Carrying value** | **182,499** | **20,926** | **(140)** | **(1,504)** | **201,781** |

**(1)** Included under 'Additions during the year – at cost' are borrowing costs amounting to EUR 826,000 capitalised using an average rate of 6.50%.

**(2)** The balance as of 31 December 2009 includes EUR 3,060,000 construction in progress, cinema equipment to an amount of EUR 60,000 not operational yet.

# Note 8 - Property and equipment (cont'd)

| | Financial year 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Balance at beginning of the year | Additions during the year (1) | Foreign currency translation adjustments | Sales and disposals | Re-classification (3) | Balance at end of year |
| | EUR (thousands) | | | | | |
| **Cost** | | | | | | |
| Land and buildings (2) | 68,964 | 531 | (6,781) | - | - | 62,714 |
| Cinema equipment (2) | 91,508 | 22,115 | (7,711) | (4,461) | (2,548) | 98,903 |
| Leasehold improvements | 95,712 | 12,178 | (8,429) | (1,577) | 3,917 | 101,801 |
| Computers, furniture and office equipment | 9,745 | 762 | 420 | (1,435) | (2,311) | 7,181 |
| Vehicles | 1,523 | 386 | 29 | (274) | (19) | 1,645 |
| Video movies | 4,003 | 587 | (171) | (2,216) | - | 2,203 |
| Video machines | 42 | 2 | 2 | (46) | - | - |
| | 271,497 | 36,561 | (22,641) | (10,009) | (961) | 274,447 |
| **Accumulated depreciation** | | | | | | |
| Land and buildings | 15,286 | 2,395 | (1,994) | - | - | 15,687 |
| Cinema equipment | 41,798 | 7,380 | (2,612) | (3,186) | 626 | 44,006 |
| Leasehold improvements | 20,255 | 6,675 | (1,649) | (1,725) | 2,621 | 26,177 |
| Computers, furniture and office equipment | 6,936 | 641 | 335 | (327) | (2,551) | 5,034 |
| Vehicles | 516 | 263 | 3 | (166) | 2 | 618 |
| Video movies | 3,122 | 680 | 182 | (2,507) | (1,051) | 426 |
| Video machines | 483 | 9 | 14 | (10) | (496) | - |
| | 88,396 | 18,043 | (5,721) | (7,921) | (849) | 91,948 |
| **Carrying value** | 183,101 | 18,518 | (16,920) | (2,088) | (112) | 182,499 |

**(1)** Included under 'Additions during the year – at cost' are borrowing costs amounting to EUR 2,541,000 capitalised using an average rate of 5.42%.

**(2)** The balance as of 31 December 2009 includes EUR 1,654,000 construction in progress and cinema equipment to an amount of EUR 3,527,000 not operational yet.

**(3)** Including reclassification in the amount of EUR 638,000 in the cost and in the accumulated depreciation and further classification to intangible assets of carrying amount of EUR 112,000.

## Note 9 - Investment properties

Investment properties as at 31 December 2009 comprise the Company's long-term investments in two plots of lands, on both which a shopping mall is being developed/to be developed: in Russe, Bulgaria and in Stara Zagora, Bulgaria. The carrying amount of the investment properties is the fair value of the properties as determined by independent external appraisers. Any difference between fair value and previous carrying value is recognised in the income statement.

| | 31 December | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| Balance at beginning of the year | **29,382** | 12,155 |
| Acquisitions and investments | **13,123** | 10,279 |
| Fair value adjustment | **(224)** | 6,948 |
| Balance at end of the year | **42,281** | 29,382 |

## Note 10 - Inventories

Composition:

| | 31 December | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| Concession products | **1,198** | 1,163 |
| Video cassettes and DVDs | **1,277** | 1,352 |
| IMAX® films inventories | **2,093** | 1,936 |
| Spare parts | **514** | 408 |
| | **5,082** | 4,859 |

Valuation:

| | 31 December | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| At cost | **5,082** | 4,859 |
| Provision for net realisable value | **-** | - |
| | **5,082** | 4,859 |

All inventories included above are valued at cost.

## Note 11 - Trade accounts receivable

Composition:

| | 31 December | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| Trade accounts receivable | **15,769** | 16,543 |
| Allowance for doubtful accounts | **(216)** | (128) |
| | **15,553** | 16,415 |

## Note 12 - Other accounts receivable and prepaid expenses

Composition:

| | 31 December | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| Government institutions | **5,968** | 2,314 |
| Advances to suppliers | **1,987** | 572 |
| Prepaid expenses | **5,689** | 5,401 |
| Prepaid cinema film and video film distribution costs (1) | **2,978** | 3,792 |
| Other | **1,875** | 2,215 |
| | **18,497** | 14,294 |

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

## Note 13 - Assets classified as held for sale

As at 31 December 2009, the assets classified as held for sale comprise the Company's 50% interest in Mall of Russe and 27.5% interest in Mall of Stara Zagora (31 December 2008: 30% interest in Mall of Plovdiv, 50% interest in Mall of Russe and 27.5% interest in Mall of Stara Zagora). The assets held for sale are presented in the reportable segment "Other" (see Note 35). For events subsequent to 31 December 2009 in respect of the assets classified as held for sale, reference is made to Note 39.

During the year ended 31 December 2009, the Company sold its remaining interest in the Mall of Plovdiv to GE Real Estate and Quinlan Private (Ireland), the same parties that purchased the first 50% of the project about two years earlier. The sale transaction, for which the Company recorded a revenue of EUR 23,028 thousand, was completed at the time of the Mall's opening in March 2009, resulting in a net transaction gain of EUR 10,611 thousand. Under the terms of the sale, the Company continues to hold a long-term lease for the 11 screen multiplex located in the Mall of Plovdiv, which also opened in March 2009.

## Note 13 - Assets classified as held for sale (cont'd)

***Mall of Russe***

MO Russe AD (formerly known as Cinema City Malls AD) is a Bulgarian company in which the Company, through its 100% subsidiary IT Sofia 2007 B.V. incorporated in the Netherlands, holds 100% of the shares. This Bulgarian company owns a plot of land in Russe, Bulgaria, on which a shopping mall is being developed.

Since as at 31 December 2009, it was the Company's intention to sell half of its interest in the Mall of Russe to a new partner in the near future, this 50% interest in the Mall of Russe is carried in the Company's consolidated Statement of Financial Position as 'held for sale', whereas the other 50%, which is considered to be held as long-term investment, is accounted for as investment property (see also Note 9).

***Mall of Stara Zagora***

M.O. Stara Zagora EOOD is a Bulgarian company in which the Company holds a 55% interest and which owns the Mall of Stara Zagora. The other 45% of the shares in M.O. Stara Zagora AD is held by third parties. As the ownership of M.O. Stara Zagora AD is jointly controlled, the interest in M.O. Stara Zagora is accounted for using the proportionate consolidation method in the Company's Consolidated Financial Statements.

Since as at 31 December 2009, it was the Company's intention to sell half of its interest in the Mall of Stara Zagora to a new partner in the near future, this 27.5% interest in the Mall of Stara Zagora is carried in the Company's consolidated statement of financial position as 'held for sale', whereas the other 27.5% interest, which is considered to be held as long-term investment, is accounted for as investment property (see also Note 9).

***Impairment***

The company did not account for any accumulated impairment losses on assets held for sale as at 31 December 2009 and 31 December 2008.

## Note 14 - Cash and cash equivalents

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

| Composition: | 31 December | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| Cash at bank and in hand | **15,371** | 7,008 |
| Short-term deposits | **7,046** | 4,772 |
| | **22,417** | 11,780 |

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates that vary between 0.1% - 4.1% (2008: 1% - 4%).

## Note 15 - Short-term bank deposits - collateralised

In 2009, deposits with banks in Central Europe denominated in EUR for a total amount of EUR 210,000 (2008: EUR 345,000) were made to serve as collateral for credit facilities provided to a subsidiary. The interest rates earned on these deposits vary from 2% to 2.5% on an annual basis.

## Note 16 - Shareholders' equity

**a. Share capital**
The authorised share capital of the Company consists of 175,000,000 shares of EUR 0.01 par value each.
The number of issued and outstanding ordinary shares as at 1 January 2008 was 50,834,000, and has remained unchanged during the financial years ended 31 December 2008 and 31 December 2009, respectively. All shares issued and outstanding at 31 December 2009 have been fully paid. Ordinary shares carry the right of one vote per share and participation in payments of dividends.

**b. Accumulated currency translation adjustments**
The accumulated translation adjustments comprise all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

**c. Hedge reserve**
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

## Note 16 - Shareholders' equity (cont'd)

**d. Share options**

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

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

All options vest in one to three years and have an option term of four years. Members of the Management Board did not receive any options under the Plan.

The weighted average exercise price of options outstanding (vested but not yet exercised and not expired) amounts to EUR 5.37. The number of exercisable options at 31 December 2009 is 441,666.

The details of the number of options outstanding as at 31 December 2009 are as follows:

| Vesting date | Exercise price | Number of options: Granted | Exercised * | Outstanding |
|---|---|---|---|---|
| 6 December 2007 | EUR 5.05 | 159,000 | 110,000 | 49,000 |
| 6 December 2008 | EUR 5.05 | 159,000 | - | 159,000 |
| 6 December 2008 | PLN 25 | 27,000 | - | 27,000 |
| 6 December 2009 | EUR 5.05 | 159,000 | - | 159,000 |
| 6 December 2009 | PLN 25 | 47,666 | - | 47,666 |
| 6 September 2010 | PLN 25 | 71,667 | - | 71,667 |
| 6 September 2011 | PLN 25 | 20,667 | - | 20,667 |
| | | 644,000 | 110,000 | 534,000 |

* In December 2007, a total number of 110,000 options that were granted in 2006, were exercised. The average share price at the time of exercise was EUR 9.42 per share.

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

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

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

During the financial years ended 31 December 2009 and 31 December 2008, respectively, no options were forfeited. The impact of the share-based payment on the financial statements of the Company for the financial year 2009 was an expense of EUR 118,000 (2008: EUR 173,000) recognised in the income statement with a corresponding increase in equity.

## Note 17 - Net earnings per share

The calculation of basic and diluted net earnings per share at 31 December 2009 was based on the profit attributable to ordinary shareholders of EUR 24,426,000 (2008: EUR 17,656,000), and a weighted average number of ordinary shares outstanding as presented below:

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

| | Financial year | |
|---|---|---|
| | **2009** | **2008** |
| | **number of shares** | |
| Number of ordinary shares at beginning of the year | **50,834,000** | 50,834,000 |
| Effect of shares issued during the year | **-** | - |
| ***Weighted average number of ordinary shares (basic)*** | **50,834,000** | 50,834,000 |
| Effect of share options issued and outstanding | **-** | 83,196 |
| ***Weighted average number of ordinary shares (diluted)*** | **50,834,000** | 50,917,196 |

## Note 18 - Minority interests

| | Financial year | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| Balance at beginning of the year | **(3,483)** | (1,908) |
| Minority interests in (losses) related to continuing operations | **(517)** | (264) |
| Minority interests in (losses) related to discontinued operations | **(46)** | (1,218) |
| Translation adjustments | **59** | (93) |
| Balance at end of the year | **(3,987)** | (3,483) |

The minority shareholders are committed to cover any deficits and losses realised by the relevant subsidiaries to the extent of their interest in these subsidiaries.

## Note 19 - Accrued employee retirement rights

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

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

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

d. The cost of severance provision is determined according to the actuarial method, the projected unit credit method. It has been calculated using a discounted cash flow approach. The calculations are based on the following assumptions:

| | |
|---|---|
| Discount at 31 December 2009 | 1.17% (3.18% at 31 December 2008) |
| Expected return on plan assets at 1 January 2010 | 5.40% (3.87% at 1 January 2009) |

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

| | 31 December | |
|---|---|---|
| | 2009 | 2008 |
| | EUR (thousands) | |
| Present value of unfunded obligation | **2,026** | 1,625 |
| Less: Fair value of plan assets | **(1,439)** | (1,279) |
| | **587** | 346 |

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

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

| | Financial year 2009 | | |
|---|---|---|---|
| | Gross amount | Amount deposited | Net amount |
| | EUR (thousands) | | |
| Balance at beginning of the year | **1,625** | **(1,279)** | **346** |
| Translation difference | **(45)** | **37** | **(8)** |
| Payments made upon retirement | **(76)** | **(68)** | **(144)** |
| Net movement in provision - charged to net profit | **522** | **(129)** | **393** |
| Balance at end of the year | **2,026** | **(1,439)** | **587** |

| | Financial year 2008 | | |
|---|---|---|---|
| | Gross amount | Amount deposited | Net amount |
| | EUR (thousands) | | |
| Balance at beginning of the year | 1,581 | (1,364) | 217 |
| Translation difference | 107 | (93) | 14 |
| Payments made upon retirement | - | 178 | 178 |
| Net movement in provision - charged to net profit | (63) | - | (63) |
| Balance at end of the year | 1,625 | (1,279) | 346 |

## Note 20 - Provision related to onerous lease contracts

In July 2002, the Group purchased four multiplex cinemas in Poland from Ster Century Europe Limited. The multiplexes comprised a total of 46 screens and approximately 10,000 seats. As part of the transaction, the Group acquired all of the shares of Ster Century Europe's Polish subsidiaries, and purchased shareholder loans provided to these subsidiaries, for a total consideration of approximately EUR 19 million (USD 20 million). The acquisition also involved the assumption of certain long-term lease contracts with onerous terms, expiring in 2009 to 2010. A provision of EUR 12,731,000 (USD 13,369,000), relating to these onerous lease contracts, which the acquired subsidiaries were party to prior to the acquisition, was recorded as part of the acquisition.

The provision is amortised over the non-cancellable periods of the lease contracts. Amortisation in 2009 amounted to EUR 1,608,000 (2008: EUR 1,608,000) and was credited to the lease expenses under operating expenses.

| Movements: | **Financial year** | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| Balance at beginning of the year | **1,957** | 3,565 |
| Amortisation during the year | **(1,608)** | (1,608) |
| Balance at end of the year | **349** | 1,957 |

## Note 21 - Long-term loans

A. Composition:

| | Interest rates | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| | % | EUR (thousands) | |
| In CZK | (1) | **3,881** | 4,308 |
| In EUR | (2) | **51,425** | 53,262 |
| In HUF | (3) | **1,825** | 2,251 |
| In NIS | (4) | **21,668** | - |
| In PLN | (5) | **24,336** | 11,858 |
| | | **103,135** | 71,679 |
| Less - current portion | | **(9,515)** | (4,497) |
| | | **93,620** | 67,182 |

(1) 4.42%
(2) EURIBOR + 1% - 2.6 %
(3) 10.98%
(4) 3.15%
(5) 6.5%

The interest rates shown concern the rates per 31 December 2009.

B. The loans mature as follows:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | EUR (thousands) | |
| First year - current maturities | **9,515** | 4,497 |
| Second year | **15,636** | 12,927 |
| Third year | **16,760** | 18,810 |
| Fourth year | **14,864** | 14,289 |
| Fifth year | **34,702** | 12,411 |
| Sixth year and thereafter | **11,658** | 8,745 |
| | **103,135** | 71,679 |

C. Liens - see Note 24 (2).

## Note 22 - Short-term borrowings

Composition:

| | Interest rates | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| | % | EUR (thousands) | |
| Current maturities of long term loans | See Note 21 | **9,515** | 4,497 |
| *Short-term bank credit:* | | | |
| Unlinked (NIS) | (1) 3.15% | **3,030** | 25,580 |
| Unlinked (PLN) | | **-** | 4,100 |
| | | **12,545** | 34,177 |

(1) Variable

The interest rates shown concern the rates per 31 December 2009.

## Note 23 - Other accounts payable

Composition:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | EUR (thousands) | |
| Investment creditors | **9,649** | 1,211 |
| Accrued expenses | **12,043** | 9,294 |
| Deferred income | **1,303** | 1,250 |
| Government institutions | **9,650** | 2,325 |
| Advances and income received in advance (1) | **139** | 74 |
| Other | **4,236** | 4,653 |
| | **37,020** | 18,807 |

(1) Consist mainly of advances received from several customers, for feature video rentals and film distribution.

## Note 24 - Commitments, contingent liabilities and liens

(1) **Commitments**

a. The Company and its subsidiaries conduct most of their cinemas and corporate operations in leased premises. These leases, which have non-cancellable clauses, expire at various dates after 31 December 2009. Many leases have renewal options. Most of the leases provide for contingent rentals based on the revenues of the underlying cinema or video library stores, while certain leases contain escalating minimum rental provisions. Most of the leases require the tenant to pay city taxes, insurance, and other costs applicable to the leased premises.

Future minimum lease payments under non-cancellable operating leases from third parties for the years after 31 December 2009 are as follows:

| | **EUR (thousands)*** |
|---|---|
| 2010 | **21,860** |
| 2011 | **23,330** |
| 2012 | **25,040** |
| 2013 | **25,464** |
| 2014 | **25,068** |
| After 2014 | **92,707** |
| | **213,469** |

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

Future minimum lease payments under non-cancellable operating leases from third parties for the years after 31 December 2008 were as follows:

| | **EUR (thousands)*** |
|---|---|
| 2009 | 20,090 |
| 2010 | 23,513 |
| 2011 | 24,177 |
| 2012 | 24,089 |
| 2013 | 23,636 |
| After 2013 | 94,100 |
| | 209,605 |

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

Rental expenses for theatres during 2009 amounted to EUR 20,837,000 (2008: EUR 22,894,000).

# Note 24 - Commitments, contingent liabilities and liens (cont'd)

b. The Group is party to a master agreement with a developer, Control Centres Ltd. ('Control Centres'), for the construction of theatre sites in shopping malls and other commercial centres throughout Hungary, Poland and the Czech Republic. Under this agreement, the Company has opened several multiplexes that are already operating in shopping malls in Central Europe.

c. As at 31 December 2009, the Group has no unpaid commitments to invest in the development of properties (31 December 2008: EUR 12.8 million) and has further commitments to acquire cinema equipment of approximately EUR 12.1 million (31 December 2008: EUR 9.9 million).
The Company has further commitment to investment related to land in Rishon Letzion, Israel in the amount of approximately EUR 2.4M.

d. In consideration for its rights to be the exclusive distributor of their films in Israel, Poland and Hungary, subsidiary companies are committed to pay fees to certain producers based on a percentage of its revenues (or in some cases, specific profits) from the films. In some cases, a minimum fee has been determined.

e. Ya'af Network, a subsidiary company, and later as part of Kafan Et Anak partnership used to has agreements for the rental of video library stores, and for the rental of space for video mats, which it uses in its operations. The rental terms pursuant to these agreements (including renewal options) granted for periods of one to ten years. The rental expenses relating to these agreements are calculated as a lump-sum linked either to the Israeli CPI or to the US dollar, or as a percentage of the turnover. Annual rent expenses for 2009 were nil (2008: EUR 460,000).

f. Subsidiary companies signed agreements with third parties in Israel, Poland and Hungary. According to these agreements, the subsidiary companies grant the third parties exclusive broadcasting rights on Israeli, Polish and Hungarian television for specific movies. These rights are for various periods and will end during the year 2013.

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

h. Lease contracts of certain cinema equipment of IMAX® systems are classified as finance lease and as such the equipment is included in property and equipment under cinema equipment. The total of the lease obligation at 31 December 2009 amounted to EUR 1,228,000 (31 December 2008: EUR 1,398,000), and is classified as Other long-term payables. The capital lease is bearing 7% annual interest The lease term expires on 31 December 2020, after which the ownership will be transferred to the Company. For a specification of the contractual maturity of Other long-term payables reference is made to Note 32.

# Note 24 - Commitments, contingent liabilities and liens (cont'd)

(2) **Liens**

a. The Company has entered into a loan facility agreement with a bank Leumi. In order to secure the Company's liabilities for these bank credits and loans, the Company has provided the bank the following: (i) a registered first degree fixed lien on IT-2004's (the Israeli subsidiary) outstanding share capital and goodwill; (ii) a first degree floating lien on IT-2004's assets, including insurance benefits in respect of the assets and rights of any kind which ITIT has or will have in the future; (iii) that the assets of IT-2004 will not be pledged and the lien cannot be transferred without the agreement of the bank; (iv) ITIT has agreed to guarantee the debt of the Company (v) that certain financial covenants will be fulfilled and maintained. The Company complied with the financial covenants during the year 2009 and as at 31 December 2009.

b. The local subsidiaries in Poland and the Czech Republic have obtained financing from banks for some of the cinema complex projects. The securities given include: mortgage on the assets of the financed projects, pledge on the shares of the subsidiaries, and an assignment of all revenues and insurance policies of the projects. During the financial year 2009, the Company provided a guarantee for new loan to a Polish bank totaling PLN 60 million (EUR 11.1 million). The Company's Polish subsidiary provided the bank with several securities consisting mainly of an ordinary joint mortgage on its interest in several real estate investments in Poland. The Polish subsidiary undertook to meet several financial covenants. As 31 December 2009, the Company had issued a guarantee for EUR 12 million to a Polish bank in connection with a loan provided to a subsidiary. In addition, the Company has issued a guarantee for a total amount of PLN 188 (EUR 45.5) million to a Polish bank in order to secure several loan agreements with this bank.

c. In order to secure an outstanding loan from a Hungarian bank of approximately EUR 3.7 million, a subsidiary company has provided to the bank the following: (i) a registered first degree fixed lien on its outstanding share capital and goodwill; (ii) a first degree floating lien on its assets, including insurance benefits in respect of the assets and rights of any kind which the subsidiary has or will have in the future; (iii) that the assets of the subsidiary will not be pledged and the lien cannot be transferred without the agreement of the bank.

d. In order to secure an outstanding loan from a Bulgarian bank of approximately EUR 2.8 million (2008: EUR 3.1 million) a subsidiary company has provided to the bank several commitments such as going concern pledge agreement, trade mark pledge agreement, sponsor support agreement and receivables pledge agreement.

## Note 24 - Commitments, contingent liabilities and liens (cont'd)

(3) **Contingent liabilities**

From time to time, the Group is involved in routine litigation and proceedings during the normal course of business. As at 31 December 2009, the Group is not involved in any litigations or proceedings except for the following:

Cinema City Poland Sp.z o.o. 100% owned by the Company, is the defendant in a claim brought by Związek Autorów i Kompozytorow ('Zaiks'), a Polish collection society representing screenplay authors and authors of other literary and musical works used in audiovisual works that are exhibited in Poland. The Company understands that Zaiks has also brought similar claims against every other major cinema exhibitor and cable TV operators in Poland. The claimant seeks royalties in the amount of approximately EUR 2.0 million plus interest for the use of works by certain of its members in movies exhibited in Poland. Based on legal advice, the Management Board does not expect the outcome of the action to have a material effect on the Group's financial position. The Company has accrued for future legal expenses in connection with the case in the statement of financial position per 31 December 2009 and 31 December 2008, respectively.

## Note 25 - Discontinued operations

Towards the end of 2009, the Company decided to terminate its DVD distribution activities in Hungary as well as in the Czech Republic. The film distribution activities in these two countries have been taken place in an unpredictable market environment making it difficult for management to derive real growth and profitability from this segment.

On 30 October 2008, the Company signed an agreement to sell, together with its 50% joint venture partner, its Israeli video and DVD film rental and sale business, which had been conducted through Blockbuster Israel. NMC-United purchased the business for NIS 6.8 million (approximately EUR 1.4 million). Following this sale, the Company will no longer be active in the DVD film rental and sale business.

Because the film distribution activities in Hungary and the Czech Republic were not classified as a discontinued operation as at 31 December 2008, the relevant comparative amounts in the consolidated income statement have been reclassified to show the discontinued operations separately from continuing operations. The consolidated income statement for the year 2009 and 2008 comprise the results from film distribution activities in Hungary and the Czech Republic as well as from the video and DVD rental and sale business in Israel.

**Consolidated Income Statement**

## Note 25 - Discontinued operations (cont'd)

***Results from discontinued operations***

| | Financial year | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands, except per share data)** | |
| Revenues | **4,811** | 12,656 |
| Operating costs, excluding depreciation and amortisation | **(5,557)** | (10,516) |
| Depreciation and amortisation | **(155)** | (828) |
| General and administrative expenses | **(602)** | (1,222) |
| Financial expenses, net | **(113)** | (142) |
| Income tax | **(199)** | (602) |
| Loss on disposal and write-off other investments | **(93)** | (889) |
| **Loss before Non-controling interests** | **(1,908)** | (1,543) |
| Loss attributable to Non-controlling interests | **46** | 1,218 |
| **Net loss attributable to equity holders** | **(1,862)** | (325) |
| **Basic and diluted loss per share** (in Euro) | **(0.04)** | (0.01) |
| ***Cash flows from discontinued operations*** | | |
| Net cash from/(used in) operating activities | **350** | (297) |
| Net cash used in investing activities | **(4)** | (642) |
| Net cash from/(used in) financing activities | **46** | 794 |
| **Net cash from/(used in) discontinued operations** | **392** | (145) |

**Consolidated Income Statement**

## Note 26 - Revenues

| | Continuing operations | | Discontinued operations (see Note 25) | | Total | |
|---|---|---|---|---|---|---|
| | Financial year | | | | | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | EUR (thousands) | | | | | |
| Theatre sales | **172,469** | 154,674 | **-** | - | **172,469** | 154,674 |
| Distribution | **13,876** | 14,351 | **4,811** | 10,099 | **18,687** | 24,450 |
| Video and DVD | **-** | - | **-** | 2,557 | **-** | 2,557 |
| Other | **25,216** | 9,927 | **-** | - | **25,216** | 9,927 |
| Total revenues | **211,561** | 178,952 | **4,811** | 12,656 | **216,372** | 191,608 |

## Note 27 - Operating costs

| | Continuing operations | | Discontinued operations (see Note 25) | | Total | |
|---|---|---|---|---|---|---|
| | Financial year | | | | | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | EUR (thousands) | | | | | |
| Costs of theatre sales | **127,107** | 114,962 | **-** | - | **127,107** | 114,962 |
| Distribution costs | **13,356** | 14,067 | **5,557** | 8,408 | **18,913** | 22,475 |
| Video and DVD costs | **-** | - | **-** | 2,108 | **-** | 2,108 |
| Other | **13,744** | 584 | **-** | - | **13,744** | 584 |
| Depreciation and amortisation | **16,168** | 17,550 | **155** | 828 | **16,323** | 18,378 |
| Total operating costs | **170,375** | 147,163 | **5,712** | 11,344 | **176,087** | 158,507 |

## Note 28 - Financial income/expenses

A. Financial income

| | Financial year | |
|---|---|---|
| | **2009** | **2008(2)** |
| | **EUR (thousands)** | |
| Interest income | **368** | 506 |
| Currency exchange gains | **600** | 1,300 |
| Total financial income consolidated | **968** | 1,806 |
| Less: Financial income of discontinued operations (see Note 25) | **(121)** | (331) |
| Total financial income of continuing operations | **847** | 1,475 |

B. Financial expenses

| | Financial year | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| Interest expenses incurred | **(4,221)** | (5,532) |
| Interest cost capitalised (1) | **2,402** | 2,541 |
| Currency exchange losses | **(1,127)** | (1,539) |
| Total financial expenses consolidated | **(2,946)** | (4,530) |
| Less: Financial expenses of discontinued operations (see Note 25) | **234** | 473 |
| Total financial expenses of continuing operations | **(2,712)** | (4,057) |

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

(2) Reclassified for comparison purposes.

## Note 29 - Loss on disposals, write-off on other investments and other costs

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

# Note 30 - Income taxes

## I. Tax laws applicable to the Group

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

| The subsidiary | Tax rate |
|---|---|
| Netherlands | 25.5% - (2008 - 25.5%) |
| Hungary | 16% - (2008 - 16%) |
| Czech Republic | 20% - (2008 - 21%) |
| Poland | 19% - (2008 -19%) |
| Israel | 26% - (2008 - 27%) |
| Bulgaria | 10 % - (2008 - 10%) |
| Romania | 16 % - (2008 - 16%) |

In several countries in which the Group is operating, tax rates will change as of 1 January 2010 as follows:
- In Czech Republic to 19%
- In Israel to 25%
- In Hungary to 19%

3. Tax ruling in Israel
The Group has received a special ruling from the Israeli tax authorities to allow for the transfer of the Israeli activities to IT-2004, and to transfer the shares of all the operating Israeli subsidiaries to the Dutch company. Under the ruling, I.T.I.T. has committed not to sell its shares in the Company for a period of four years, and the Company has committed to pay tax in Israel on any future gains on the sale of Israeli subsidiaries.

## II. Deferred income taxes

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

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

## Note 30 - Income taxes (cont'd)

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

| Deferred income tax included in assets: | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | EUR (thousands) | |
| Accrued employee rights | **123** | 112 |
| Fixed assets | **1** | 1 |
| Operating tax loss carry-forwards | **1,821** | 426 |
| Other | **548** | 516 |
| | **2,493** | 1,055 |

| Deferred income tax included in liabilities: | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | EUR (thousands) | |
| Accrued employee rights | **(106)** | (65) |
| Fixed assets | **6,702** | 5,656 |
| Operating tax loss carry-forwards | **(308)** | (1,187) |
| Long-term liabilities | **(561)** | (1,794) |
| Other | **336** | 722 |
| | **6,063** | 3,332 |

III**. Income taxes in the income statement**

| **Composition:** | Financial year 2009 | Financial year 2008 |
|---|---|---|
| | EUR (thousands) | |
| Current taxes | **1,080** | 580 (*) |
| Deferred income taxes | **1,375** | 704 (*) |
| In respect of previous years | **-** | 119 |
| Effect of reduction in tax rate | **-** | (59) |
| Income tax expense from continuing operations | **2,455** | 1,344 |
| Income tax expense from discontinued operations | **199** | 602 |
| Total Income tax expense | **2,654** | 1,946 |

(*) Reclassified for comparison purposes.

# Note 30 - Income taxes (cont'd)

## IV. **Income tax recognised in other comprehensive income**

| | Financial year 2009 | | |
|---|---|---|---|
| | Before tax | Tax (expense)/ benefit | Net of tax |
| | EUR (thousands) | | |
| Foreign exchange translation differences | **494** | **-** | **494** |
| Effective portion in fair value of cash flow hedges | **(1,499)** | **290** | **(1,209)** |
| Total other comprehensive income | **(1,005)** | **290** | **(715)** |

| | Financial year 2008 | | |
|---|---|---|---|
| | Before tax | Tax (expense)/ benefit | Net of tax |
| | EUR (thousands) | | |
| Foreign exchange translation differences | (16,550) | - | (16,550) |
| Effective portion in fair value of cash flow hedges | 3,073 | (590) | 2,483 |
| Total other comprehensive income | (13,477) | (590) | (14,067) |

## V. **Tax reconciliation**

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

| | Financial year | |
|---|---|---|
| | 2009 | 2008 |
| | EUR (thousands) | |
| Tax calculated at the regular rate (2009: 25.5%; 2008: 25.5%) | **6,711** | 4,467 |
| Adjustment for reduced tax rate in foreign subsidiaries | **(867)** | (1,719) |
| Effect of reduction in tax rates on deferred income taxes | **2,085** | 450 |
| Non-deductible expenses | **780** | 1,022 |
| Effect of tax losses utilised | **(2,017)** | (1,733) |
| Income exempt from taxes | **(3,002)** | (508) |
| Taxes in respect of previous years | **-** | 220 |
| Other differences | **(1,235)** | (855) |
| Actual income tax expense (from continuing operations) | **2,455** | 1,344 |

# Note 31 - Related party transactions

**Related parties**

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

Such relationships include:

1. Parent-subsidiary relationships.
2. Entities under common control.
3. Individuals who, through ownership, have significant influence over the enterprise and close members of their families.
4. Key management personnel, comprising the members of the Management Board and members of the Supervisory Board.

The Group is controlled by I.T. International Theatres Ltd., incorporated in Israel, which owns 64.35% of the outstanding shares (2008: also 64.35%). The remaining 35.65% are held by the public and traded at the Warsaw Stock Exchange. The ultimate parent of the Group is Israel Theatres Ltd., incorporated in Israel. The ultimate controlling parties are Mr Moshe Greidinger and Mr Israel Greidinger, both Managing Directors of the Company.

Transactions with related parties:

a. Income (expenses):

| | Financial year | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| Rental fees | **(412)** | (483) |
| Management services | **747** | 915 |

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

b. Israel Theatres Ltd. (the parent company of ITIT) is leasing real estate properties on which three of the Company's theatres are located to the Company. The annual lease payments for the above properties aggregated to EUR 263,222 (USD 377,250).

c. Pursuant to the management services agreement between the Company and Israel Theatres Ltd., the Company will provide Israel Theatres Ltd. for an indefinite period with certain management services. Management services include office and accounting services through providing Israel Theatres with senior personnel and administration of Israel Theatres Ltd.'s business. The management services agreement is for a fixed annual sum of EUR 337,000 (USD 496,000).

d. Forum Film Ltd. has been leasing offices and storage space from Israel Theatres Ltd. since February 1994, for consideration of EUR 10,000 (USD 13,000) per month, linked to the changes in the CPI. Israel Theatres Ltd. leased offices in Herzlia and in Haifa to IT-2004 in consideration of EUR 111,000 (NIS 586,000) per annum. The rental fees are linked to the Israeli CPI.

## Note 31 - Related party transactions (cont'd)

e. RESB EOOD, a 100% owned subsidiary by the Company provided during 2009 real estate management and consulting services in the amount of EUR 295,000 to MO Plovdiv EOOD (not consolidated sold during 2009) and to Park Tower EOOD (a 100% owned subsidiary of Israel theatres Ltd.).

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

   In accordance with the said agreement, the aggregate gross monthly remuneration for the Managing Directors amounts to EUR 27,000 (USD 37,000) per month (not linked), which, together with related employee benefits, will amount to EUR 32,000 (USD 44,000) per month.

   In addition, the Managing Directors are entitled to an annual bonus aggregating to 7% of the Company’s consolidated profits before tax for any fiscal year. The above mentioned Managing Directors undertook to be employed by the Company for an indefinite period, with six month notice of termination, and to refrain from competing with the Company’s business for a period of 12 months following termination of their employment with the Company.

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

   Also on 26 November 2006, the General Meeting of Shareholders of the Company approved a new long-term incentive plan (the ‘Plan’). The persons eligible for participation in the Plan are the employees of the Group, including the members of the Management Board.
   Under the Plan, both option rights to acquire shares in the Company and cash bonuses may be granted to the participants. During the financial years 2009 and 2008, no share options have been granted to members of the Management Board.

   The Managing Directors of the Company received remuneration totalling EUR 2,507,000 (2008: EUR 1,911,000). The members of the Supervisory Board received fees totalling EUR 122,000 (2008: EUR 93,000). The total remuneration is included in general and administrative expenses. The members of the Management and Supervisory Board did not receive any option rights to acquire shares in the Company during the financial years 2009 and 2008.

## Note 31 - Related party transactions (cont'd)

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

| | Financial year | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| *General director:* | | |
| Salary and other short-term benefits | **233** | 229 |
| Post-employment benefits | **13** | 13 |
| Management bonus | **921** | 634 |
| | **1,167** | 876 |
| *Operational director:* | | |
| Salary and other related costs | **197** | 186 |
| Post-employment benefits | **11** | 11 |
| Management bonus | **461** | 317 |
| | **669** | 514 |
| *Financial director:* | | |
| Salary and other related costs | **199** | 193 |
| Post-employment benefits | **11** | 11 |
| Management bonus | **461** | 317 |
| | **671** | 521 |
| Total | **2,507** | 1,911 |

The remuneration for the Supervisory Board members is principally divided equally (see also Note 11 of the Company Financial Statements).
Total compensation to key management personnel amounts to Euro 2,629 thousands (2008: Euro 2,004 thousands), Euro 2,594 thousands relates to short term employee benefits (2008: Euro 1,969 thousands), Euro 35 thousands to post employments benefits (2008: Euro 35 thousands).

Forum Film Ltd., a 50% subsidiary, will participate in the aforementioned remunerations to Messrs Moshe Greidinger and Israel Greidinger at the rate of 33% thereof and will fully cover the portion of the above mentioned bonuses that relate to its own revenues.

g. The Greidinger family has indirect control of the Company's majority shareholder, ITIT, through its majority shareholding in Israel Theatres Ltd. More than 75% of the shares in Israel Theatres Ltd. are held indirectly by Mr Israel Greidinger, Mr Moshe Greidinger and their relatives.
The 50% of Norma Film not owned by the Company is held by M.I. Greidinger Investment Ltd., in which both Mr Moshe Greidinger and Mr Israel Greidinger each hold a 50% interest.

h. The minority interests mainly represent a 50% indirect share in the equity of Forum Film Ltd. by M.I. Greidinger Investment Ltd. (see Note 31 (g)). Pursuant to Forum Film Ltd.'s Articles of Association, the Company has the right to appoint three of Forum Film Ltd.'s five directors, and accordingly, maintains control over all major company decisions.

## Note 31 - Related party transactions (cont'd)

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

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

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

## Note 32 - Financial instruments and financial risk management

The Group’s principal financial instruments, other than derivatives and cash and cash equivalents, comprise bank loans and short-term bank credits. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group also enters into derivative transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group’s operations and its sources of finance. It is, and has been throughout the financial years 2009 and 2008, the Group’s policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group’s financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board reviews and agrees policies for managing each of these risks and they are summarised below. The Management Board also monitors the market price risk arising from all financial instruments. The Group’s accounting policies in relation to derivatives are set out in Note 4 (J).

## Note 32 - Financial instruments and financial risk management (cont'd)

**Market risk**

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

*(i) Price risk*

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

Assets classified as held for sale and investment properties comprise interests in two development projects (shopping malls) in Bulgaria (see Notes 9 and 13). Their performance is actively monitored and managed on a fair value basis.

*(ii) Interest rate risk*

The Group has no significant interest-bearing assets. The Group's interest rate risk arises from long-term borrowings. For its long-term borrowings, the Group adopts a policy of a mixture of flat and floating interest rates (see Notes 21 and 22). At 31 December 2009 and 2008, the Group has no borrowings at fixed rates of interest.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing and renewal of existing positions. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on interest cost of a 1% shift in interest rate would be a maximum decrease of EUR 780 thousand (2008: EUR 530 thousand).

# Note 32 - Financial instruments and financial risk management (cont'd)

**Market risk (cont'd)**

*(ii) Foreign exchange risk*

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

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

(a) the Euro versus the Czech crown, the Hungarian forint, the Romanian new lei or the Polish zloty by +/- 15.3%
(b) the Euro versus the US dollar by +/- 12.4%
(c) the Euro versus the New Israeli shekel by +/- 9.4%
(d) the US dollar versus the Czech crown, the Hungarian forint, the Romanian new lei or the Polish zloty by +/- 25.9%
(e) the US dollar versus the New Israeli shekel by +/- 13.6%

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

**Total effect on profit/(loss)**

| | Financial year 2009 | | | | |
|---|---|---|---|---|---|
| | **EUR vs CZK, HUF,RON or PLN** | **EUR vs USD** | **EUR vs NIS** | **USD vs CZK, HUF,RON or PLN** | **USD vs NIS** |
| | EUR (thousands) | | | | |
| Total assets/(liabilities) | **(1,553)** | **14** | **49** | **595** | **693** |
| Reasonable shift | **15.3%** | **12.4%** | **9.4%** | **25.9%** | **13.6** |
| Total effect on profit of positive movements | **(220.2)** | **(0.5)** | **3.2** | **1,917.9** | **96.6** |
| Total effect on profit of negative movements | **220.2** | **0.5** | **(3.2)** | **(1,917.9)** | **(96.6)** |

**Total effect on profit/(loss)**

| | Financial year 2008 | | | | |
|---|---|---|---|---|---|
| | **EUR vs CZK, HUF or PLN** | **EUR vs USD** | **EUR vs NIS** | **USD vs CZK, HUF or PLN** | **USD vs NIS** |
| | EUR (thousands) | | | | |
| Total assets/(liabilities) | (8,286) | (23) | 18 | 55 | 728 |
| Reasonable shift | 12% | 12.4% | 11.4% | 19.3% | 14.6% |
| Total effect on profit of positive movement | (793.2) | (1.05) | 11.0 | 817 | 50.6 |
| Total effect on profit of negative movement | 793.2 | 1.05 | (11.0) | (817) | (50.6) |

# Note 32 - Financial instruments and financial risk management (cont'd)

**Credit risk**

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

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

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

| | 31 December | |
|---|---|---|
| | **2009** | **2008** [1] |
| | **EUR (thousands)** | |
| Trade receivables | **15,553** | 16,415 |
| Receivables from related parties | **427** | 750 |
| Other receivables | **18,497** | 14,294 |
| Non-marketable securities held for sale | **169** | 1,358 |
| Cash and cash equivalents [2] | **20,741** | 10,509 |
| Short-term bank deposits | **210** | 936 |
| Foreign currency exchange contracts | **1,574** | 3,073 |
| | **57,171** | 47,335 |

[1] Restated to reflect the reclassification of a jointly controlled entity as held for use (see Note 4A).

[2] The rest of 'Cash and cash equivalents' is cash on hand.

## Note 32 - Financial instruments and financial risk management (cont'd)

### Credit risk (cont'd)

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

| | 31 December | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| **Trade receivables:** | | |
| *Counterparty without / with unknown external credit rating* | | |
| Group 1 [1] | **11,942** | 16,251 |
| Group 2 [2] | **1,736** | 164 |
| Group 3 [3] | **1,875** | - |
| ***Total Trade receivables*** | **15,553** | 16,415 |
| **Cash at banks and short-term bank deposits** | | |
| AAA | **18,881** | 8,303 |
| AA | **184** | 17 |
| A | **1,676** | 2,189 |
| ***Total Cash at banks*** [4] | **20,741** | 10,509 |

Allowances for doubtful account remained on a similar level (EUR 216 thousand and EUR 128 thousand for 31 December 2009 and 2008 respectively).

[1] Group 1 – new receivables (less then 6 months).
[2] Group 2 – existing receivables (more than 6 months) with no defaults in the past.
[3] Group 3 – existing receivables (more than 6 months) with some defaults in the past. All defaults were fully recovered.

[4] The rest of 'Cash and cash equivalents' is cash on hand.

## Note 32 - Financial instruments and financial risk management (cont'd)

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | As at 31 December 2009 | | | |
|---|---|---|---|---|
| | **Less than 1 year** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** |
| | **EUR (thousands)** | | | |
| Borrowings | **9,515** | **15,636** | **65,421** | **12,563** |
| Other long-term payables | **273** | **109** | **1,264** | **3,376** |
| Current liabilities * | **49,585** | **566** | **30** | **68** |

| | As at 31 December 2008 | | | |
|---|---|---|---|---|
| | **Less than 1 year** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** |
| | **EUR (thousands)** | | | |
| Borrowings | 4,497 | 12,927 | 45,510 | 8,745 |
| Other long-term payables | 108 | 108 | 1,259 | 1,751 |
| Current liabilities* | 32,914 | 535 | 69 | - |

* excluding short term borrowing , deferred income and income received in advance.

**Derivative financial instruments**

As at 31 December 2009 and 31 December 2008, the Company has hedged some of its USD and EUR expenses through 2010 and 2009 in respect of its Polish, Hungarian and Czech theatre operations, against the Polish zloty, the Hungarian Forint and the Czech crown, respectively. In connection with these obligations, the Company has entered into the following forward foreign exchange contracts:

(1) Contracts comprising a commitment to buy EUR 300,000 and USD 500,000 at the beginning of each month until December 2010 at fixed prices denominated in Polish zloty.
(2) Contracts comprising a commitment to buy USD 255,000 at the beginning of each month until December 2010 at fixed prices denominated in Hungarian forint.
(3) Contracts comprising a commitment to buy USD 90,000 at the beginning of each month until August 2011 at fixed prices denominated in the Czech crown.

These forward foreign exchange contracts have been valued in the consolidated statement of financial position as at 31 December 2009 at their fair value.

# Note 32 - Financial instruments and financial risk management (cont'd)

**Derivative financial instruments (cont'd)**
The change in fair value of contracts that are effective hedges is booked directly into equity in a separate hedge reserve. The Company designates these contracts to hedge future cash flow fluctuations deriving from differences between the EUR and the USD against local currencies as described above. Amounts are released from the Hedge reserve to profit or loss when the future transaction is settled.

**Fair values**
The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| | As at 31 December 2009 | | As at 31 December 2008 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | EUR (thousands) | | | |
| Trade accounts receivable | **15,553** | **15,553** | 16,415 | 16,415 |
| Receivables from related parties | **427** | **427** | 750 | 750 |
| Income taxes receivable | **258** | **258** | 355 | 355 |
| Receivable from government institutions | **5,968** | **5,968** | 2,314 | 2,314 |
| Other receivables | **12,529** | **12,529** | 11,980 | 11,980 |
| Marketable securities | **169** | **169** | 1,358 | 1,358 |
| Assets classified as held for sale* | **37,924** | **37,924** | 33,564 | 33,564 |
| Cash and cash equivalents | **22,417** | **22,417** | 11,780 | 11,780 |
| Short-term bank deposits | **210** | **210** | 936 | 936 |
| Foreign currency exchange contracts ** | **1,574** | **1,574** | 3,073 | 3,073 |
| Bank loans | **(103,135)** | **(103,135)** | (71,679) | (71,679) |
| Short-term bank credits | **(3,030)** | **(3,030)** | (29,680) | (29,680) |
| Financial leases | **(3,794)** | **(3,794)** | (1,398) | (1,398) |
| Other long-term liabilities | **(8,227)** | **(8,227)** | (934) | (934) |
| Trade payables | **(12,655)** | **(12,655)** | (13,007) | (13,007) |
| Payables to related parties | **(137)** | **(137)** | (1,334) | (1,334) |
| Investment creditors | **(9,649)** | **(9,649)** | (1,211) | (1,211) |
| Accrued expenses | **(12,043)** | **(12,043)** | (9,294) | (9,294) |
| Payable to government institutions | **(9,650)** | **(9,650)** | (2,325) | (2,325) |
| Other payables | **(5,678)** | **(5,678)** | (5,977) | (5,977) |
| | **(70,969)** | **(70,969)** | (54,314) | (54,314) |

* As of 31 December 2009, the approximate fair value of the Assets classified as held for sale is not less the carrying value (EUR 37,924 thousands).
As of 31 December 2008, the approximate fair value of the Assets classified as held for sale is not less the carrying value (EUR 33,564 thousands).

** Both non-current and current.

## Note 32 - Financial instruments and financial risk management (cont'd)

**Fair value hierarchy**

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

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | As at 31 December 2009 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** |
| | **EUR (thousands)** | | |
| Marketable securities | **169** | **-** | **169** |
| Derivative financial assets | | | |
| (Foreign currency exchange contracts) | **-** | **1,574** | **1,574** |
| | **169** | **1,574** | **1,743** |

| | As at 31 December 2008 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** |
| | **EUR (thousands)** | | |
| Marketable securities | 1,358 | - | 1,358 |
| Derivative financial assets | | | |
| (Foreign currency exchange contracts) | - | 3,073 | 3,073 |
| | 1,358 | 3,073 | 4,431 |

There have been no transfers between Level 1 to Level 2 in 2009 (2008: no transfers in either direction).

## Note 33 - Capital management

When managing capital, it is the Group's objective to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the profit appropriation, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio and leverage. No external capital requirements existed as per 31 December 2009 and 31 December 2008.

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

The gearing ratios and leverage at 31 December 2009 and 2008 were as follows:

| | **31 December** | |
|---|---|---|
| | **2009** | **2008** |
| | **EUR (thousands)** | |
| Bank debt: | | |
| Long-term borrowings, including current portion | **103,135** | 71,679 |
| Short-term bank credit | **3,030** | 29,680 |
| **Total debt** | **106,165** | 101,359 |
| Cash and cash equivalents | **(22,417)** | (11,780) |
| **Net debt** | **83,748** | 89,579 |
| Construction in progress (see Note 8) | **(3,060)** | (1,654) |
| Cinema equipment not operated yet (see Note 8) | **(60)** | (3,527) |
| Net debt financing assets in operation | **80,628** | 84,398 |
| Total equity | **183,796** | 160,026 |
| **Total capital employed** | **264,424** | 244,424 |
| **Gearing ratio** | **45.6%** | 56.0% |
| **Leverage** | **31.7%** | 36.6% |

# Note 34 - Linkage terms of monetary items

| | 31 December 2009 | | | |
|---|---|---|---|---|
| | In or linked to EUR | In or linked to USD | In or linked to foreign currencies | Total |
| | EUR (thousands) | | | |
| **Assets** | | | | |
| Cash and cash equivalents | **1,075** | **1,388** | **19,954** | **22,417** |
| Short-term bank deposits - collateralised | **210** | **-** | **-** | **210** |
| Trade accounts receivable | **360** | **25** | **15,168** | **15,553** |
| Other accounts receivable and prepaid expenses | **1,387** | **12** | **17,098** | **18,497** |
| Receivable from related parties | **82** | **-** | **345** | **427** |
| Marketable securities | **109** | **-** | **60** | **169** |
| Foreign currency exchange contracts | **470** | **1,104** | **-** | **1,574** |
| | **3,693** | **2,529** | **52,625** | **58,847** |
| **Liabilities** | | | | |
| Short-term bank credit | **1** | **-** | **3,029** | **3,030** |
| Trade accounts payable | **153** | **171** | **12,331** | **12,655** |
| Employee and payroll accruals | **-** | **-** | **1,879** | **1,879** |
| Other accounts payable | **4,381** | **168** | **32,471** | **37,020** |
| Payable to related parties | **-** | **-** | **137** | **137** |
| Long-term loans (including current-portion ) | **47,252** | **-** | **55,883** | **103,135** |
| Accrued employee rights upon retirement | **-** | **-** | **587** | **587** |
| | **51,787** | **339** | **106,317** | **158,443** |

| | 31 December 2008 | | | |
|---|---|---|---|---|
| | In or linked to EUR | In or linked to USD | In or linked to foreign currencies | Total |
| | EUR (thousands) | | | |
| **Assets** | | | | |
| Cash and cash equivalents | 6,058 | 878 | 4,844 | 11,780 |
| Short-term bank deposits - collateralised | 345 | - | - | 345 |
| Short-term bank deposits over 3 months | - | - | 591 | 591 |
| Trade accounts receivable | 36 | | 16,379 | 16,415 |
| Other accounts receivable | 2,586 | 442 | 11,266 | 14,294 |
| Related parties receivable | 228 | - | 522 | 750 |
| Marketable securities | 1,324 | - | 34 | 1,358 |
| Foreign currency exchange contracts | 784 | 2,289 | - | 3,073 |
| | 11,361 | 3,609 | 33,636 | 48,606 |
| **Liabilities** | | | | |
| Short-term bank credit | - | - | 29,680 | 29,680 |
| Trade accounts payable | 1,004 | 416 | 11,587 | 13,007 |
| Employee and payroll accruals | 32 | - | 1,662 | 1,694 |
| Other accounts payable | 5,246 | 142 | 13,419 | 18,807 |
| Due to related parties | 849 | - | 485 | 1,334 |
| Long-term loans (including current-portion ) | 53,262 | - | 18,417 | 71,679 |
| Accrued employee rights upon retirement | - | - | 346 | 346 |
| | 60,393 | 558 | 75,596 | 136,547 |

# Note 35 - Segment reporting

The Group's operations in Israel and Central Europe are organised under three strategic business segments: (1) Theatre operations, (2) Distribution (distribution of movies) and (3)Other, this includes the Group's real estate business. These strategic business units offer different products and services and are managed separately as they require different technology, logistics and marketing strategies. For each of the strategic business units, the Management Board reviews internal management reports on at least a quarterly basis.

Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, finance costs, finance income and income taxes are managed on a group basis and are not allocated to operating segments.

Inter-segment pricing is determined on an arm's length basis.

## Business segments

| | Financial year 2009 EUR (thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Theatre Operations** | **Distribution** | **Other** | **Discon-tinued opera-tions** | **Elimi-nations** | **Conso-lidated** | **Less: Discon-tinued opera-tions** | **Continuing operations** |
| **Revenues** | | | | | | | | |
| External sales | **172,469** | **13,876** | **25,216** | **4,811** | **-** | **216,372** | **4,811** | **211,561** |
| Inter-segment sales | **485** | **8,400** | **-** | **-** | **(8,885)** | **-** | **-** | **-** |
| Total revenues | **172,954** | **22,276** | **25,216** | **4,811** | **(8,885)** | **216,372** | **4,811** | **211,561** |
| **Results** | | | | | | | | |
| Segment result before depreciation, amortisation & impairment write-downs | **37,729** | **(405)** | **9,063** | **(1,348)** | **-** | **45,039** | **(1,348)** | **46,387** |
| Depreciation, amortisation & impairment write-downs | **15,802** | **240** | **126** | **155** | **-** | **16,323** | **155** | **16,168** |
| Segment result | **21,927** | **(645)** | **8,937** | **(1,503)** | **-** | **28,716** | **(1,503)** | **30,219** |
| Financial income | | | | | | **847** | **-** | **847** |
| Financial expenses | | | | | | **(2,825)** | **(113)** | **(2,712)** |
| Loss on disposals | | | | | | **(221)** | **(93)** | **(128)** |
| Income tax expense | | | | | | **(2,654)** | **(199)** | **(2,455)** |
| Non-controlling interests | | | | | | **563** | **46** | **517** |
| Net income | | | | | | **24,426** | **(1,862)** | **26,288** |

| | 31 December 2009 EUR (thousands) | | | | | |
|---|---|---|---|---|---|---|
| | **Theatre operations** | **Distribution** | **Discontinued operations** | **Other** | **Unallocated** | **Consolidated** |
| **Segment assets** | **245,708** | **10,002** | **2,267** | **89,216** | **2,493** | **349,686** |
| **Segment liabilities** | **38,917** | **4,859** | **3,989** | **9,884** | **112,228** | **169,877** |
| **Capital expenditure** | **36,755** | **174** | **4** | **13,223** | **-** | **50,156** |

**Consolidated Income Statement**

# Note 35 - Segment reporting (cont'd)

| | Financial year 2008 * EUR (thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Theatre Operations | Distribution | Other | Discon-tinued opera-tions | Elimi-Nations | Conso-lidated | Less: Discon-tinued opera-tions | Conti-nuing operations |
| **Revenues** | | | | | | | | |
| External sales | 154,674 | 14,351 | 9,927 | 12,656 | - | 191,608 | 12,656 | 178,952 |
| Inter-segment sales | - | 6,766 | - | - | (6,766) | - | - | - |
| Total revenues | 154,674 | 21,117 | 9,927 | 12,656 | (6,766) | 191,608 | 12,656 | 178,952 |
| **Results** | | | | | | | | |
| Segment result before depreciation, amortisation & impairment write-downs | 32,869 | (597) | 7,120 | 918 | - | 40,310 | 918 | 39,392 |
| Depreciation, amortisation & impairment write-downs | 17,297 | 215 | 38 | 828 | - | 18,378 | 828 | 17,550 |
| Segment result | 15,572 | (812) | 7,082 | 90 | - | 21,932 | 90 | 21,842 |
| Financial income | | | | | | 1,475 | - | 1,475 |
| Financial expenses | | | | | | (4,199) | (142) | (4,057) |
| Loss on disposals | | | | | | (1,088) | (889) | (199) |
| Income tax expense | | | | | | (1,946) | (602) | (1,344) |
| Non-controlling interests | | | | | | 1,482 | 1,218 | 264 |
| Net income | | | | | | 17,656 | (325) | 17,981 |

| | 31 December 2008(*) EUR (thousands) | | | | | |
|---|---|---|---|---|---|---|
| | Theatre operations | Distribution | Discontinued operations | Other | Unallocated | Consolidated |
| **Segment assets** | 210,198 | 10,761 | 6,180 | 73,411 | 1,055 | 301,605 |
| **Segment liabilities** | 25,996 | 4,701 | 4,498 | 5,176 | 104,691 | 145,062 |
| **Capital expenditure** | 35,950 | 364 | 504 | 11,008 | - | 47,826 |

* Reclassified to show the discontinued operation of the DVD distribution business in Hungary and the Czech Republic separately from the continuing operations (see Note 25)

# Note 35- Segment reporting (cont'd)

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

**31 December 2009**

**EUR (thousands)**

| | Poland | Israel | Hungary | Other | Un-Allocated | Conso-lidated |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| External sales | **105,671** | **36,393** | **22,974** | **46,523** | **-** | **211,561** |
| **Non-current Assets** | | | | | | |
| Segment assets | **126,087** | **26,825** | **13,390** | **78,858** | **2,493** | **247,653** |
| Capital expenditure | **18,564** | **2,133** | **4,975** | **24,484** | **-** | **50,156** |

**31 December 2008**

**EUR (thousands)**

| | Poland | Israel | Hungary | Other | Un-Allocated | Conso-lidated |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| External sales | 102,478 | 32,048 | 19,358 | 25,068 | - | 178,952 |
| **Non-current Assets** | | | | | | |
| Segment assets | 116,414 | 28,220 | 10,303 | 60,123 | 1,055 | 216,115 |
| Capital expenditure | 14,225 | 13,587 | 3,095 | 16,919 | - | 47,826 |

# Note 36 - Personnel

Personnel costs are specified as follows:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | EUR (thousands) | |
| Salaries and wages | **17,584** | 16,854 |
| Pension costs | **1,300** | 1,239 |
| Other social charges | **2,203** | 2,054 |
| Equity settled share-based payment transactions (see Note 16(d)) | **118** | 174 |
| Total personnel costs | **21,205** | 20,321 |

For 2009 and 2008, the pension costs comprise defined contribution expenses only.

The average number of personnel, in full-time equivalents, employed by the Company and its subsidiaries and joint ventures during the year 2009 was 2,153 (financial year 2008: 1,943). A geographical allocation of the average number of personnel is as follows:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Israel | **329** | 464 |
| Poland | **1,080** | 860 |
| Hungary | **328** | 342 |
| Other Central Europe* | **416** | 277 |
| Total average number of personnel | **2,153** | 1,943 |

* Including the Czech Republic, Bulgaria and Romania.

# Note 37 - Details of corporations in the Group

| | 31 December 2009(*) | | | |
|---|---|---|---|---|
| | the Company's (in)direct voting rights | the Company's equity share | Consolidation | Country of incorporation |
| | % | % | % | |
| I.T. International Theatres 2004 Ltd. | 100% | 100% | Full | (6) |
| I.T. Magyar Cinemas Kft | 100% | 100% | Full | (2) |
| Cinema City Finance B.V | 100% | 100% | Full | (1) |
| Cinema City Poland Sp.Zoo | 100% | 100% | Full | (4) |
| New Cinemas Poland Sp.Zoo | 100% | 100% | Full | (4) |
| IT Development 2003 Sp.Zoo | 100% | 100% | Full | (4) |
| I.T. Czech Cinemas S.R.O. | 100% | 100% | Full | (3) |
| Forum Home Entertainment Czech S.R.O. ** | 100% | 100% | Full | (3) |
| New Age Cinema Czech S.R.O | 100% | 100% | Full | (3) |
| I.T. Sofia B.V. | 100% | 100% | Full | (1) |
| I.T Sofia 2007 B.V. | 100% | 100% | Full | (1) |
| New Age Media Sp.Zoo | 100% | 100% | Full | (4) |
| Forum Film Poland Sp.Zoo | 100% | 100% | Full | (4) |
| All Job Poland Sp. Zoo | 100% | 100% | Full | (4) |
| Cinema City Poland spolka komandytowa Sp.Zoo | 100% | 100%$ | Full | (4) |
| Norma Film Ltd. | 60% | 50% | Full | (6) |
| Forum Film Ltd. | 60% | 50% | Full | (6) |
| Ya'af - Giant Video Library Network Ltd.** | 60% | 30% | Full | (6) |
| Ya'af – Automatic Video Machines Ltd. | 60% | 50% | Full | (6) |
| Kafan et Anak limited partnership** | 25% | 15% | Proportionate | (6) |
| Mabat Ltd. | 100% | 100% | Full | (6) |
| Teleticket Ltd. | 100% | 100% | Full | (6) |
| Cinema Plus Ltd. | 100% | 100% | Full | (6) |
| Cinema City Bulgaria EOOD | 100% | 100% | Full | (5) |
| Forum Film Bulgaria EOOD | 100% | 100% | Full | (5) |
| Forum Film Home Entertainment KFT ** | 100% | 100% | Full | (2) |
| New Age Cinema KFT | 100% | 100% | Full | (2) |
| Forum Hungary Film Distribution KFT | 100% | 100% | Full | (2) |
| Cinema City Romania SRL | 100% | 100% | Full | (7) |
| New Age Media Romania SRL | 100% | 100% | Full | (7) |
| Mall of Russe AD | 100% | 100% | Full | (5) |
| Mall of Stara Zagora AD | 55% | 55% | Proportionate | (5) |
| RESB EOOD | 100% | 100% | Full | (5) |
| Cinema City Stara Zagora B.V | 100% | 100% | Full | (1) |
| Cinema City Malls B.V | 100% | 100% | Full | (1) |

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

* *The details of corporations during the financial year ended 31 December 2008 were similar to the details of corporations as at 31 December 2009 as shown above, except for changes during the financial year 2009 disclosed in Note 6.*

** *include the discontinued operations- see note 25.*

## Note 38 - Interest in joint ventures

As at 31 December 2009, the Group has a 55% interest in a Bulgarian joint venture, M.O. Stara Zagora EOOD, which owns a plot of land in Stara Zagora, Bulgaria, on which a shopping mall is being developed. The comparative figures as at 31 December 2008 also include a 50% interest (indirectly) in an Israeli joint venture, Kafan et Anak limited partnership, which operates a video chain in Israel under the brand name Blockbuster.

The following amounts represent the Group's share of the assets and liabilities, and sales and results of the joint ventures. They are included in the consolidated statement of financial position and consolidated income statement:

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| | EUR (thousands) | |
| **Assets:** | | |
| - Non-current assets | **1,791** | 3,028 |
| - Current assets | **1,843** | 1,800 |
| | **3,634** | 4,828 |
| **Liabilities:** | | |
| - Non-current liabilities | **2,581** | 1,997 |
| - Current liabilities | **37** | 1,859 |
| | **2,618** | 3,856 |
| **Net assets** | **1,016** | 972 |

| | Financial year 2009 | Financial year 2008 |
|---|---|---|
| | EUR (thousands) | |
| Income | **-** | 2,636 |
| Expenses | **(291)** | 4,009 |
| Profit after income tax | **(291)** | (1,373) |

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

## Note 39 – Subsequent events

Subsequent to the end of the financial year, in March 2010, the Company signed a Memorandum of Understanding with its controlling shareholder, Israel Theatres Ltd., to sell all of its interests in real estate development projects and related activities in Bulgaria to Israel Theatres for approximately EUR 85 million. The assets of the business to be transferred include (1) the Mall of Russe project in the city of Russe, which is in an advanced construction stage and is expected to open in 2010, (2) the Mall of Stara Zagora, which is still in its planning stage; and (3) the local management company, RESB EOOD, which is responsible for building and leasing these assets.

The purchase price is based on a valuation performed by an internationally recognised third party valuator for both the properties in Russe and Stara Zagora, which was separately obtained by the Company in conjunction with the preparation of its 2009 audited financial statements. As a result of the transaction, the Company is expected to realise an additional gain of approximately EUR 3.7 million, which would be recognised in the first quarter of 2010.

As per the Memorandum of Understanding, Israel Theatres Ltd. will pay approximately EUR 70 million of the purchase price at the closing of the transaction. The remainder, an approximate amount of EUR 15 million, will be paid 9 months after the opening of the mall. In no event, however, later than 18 months following the closing of the transaction. In connection with Israel Theatres Ltd. securing financing for the transaction, the Company shall agree to refrain from borrowing additional funds if such borrowings would result in Israel Theatres, on a fully consolidated basis (together with the Company), breaching agreed-upon EBITDA to debt ratios. This covenant will remain in force as long as Israel Theatres Ltd. remains the majority shareholder in the Company, or until Israel Theatres Ltd. has repaid the debt it is assuming for financing the transaction.

In addition, the sale and purchase agreement provides that Israel Theatres will pay to the Company a percentage of any gains it realises from selling the two Bulgarian real estate assets at any time within three years after the closing date.

Execution of definitive agreements and the closing of the transaction are expected to take place prior to the end of March 2010.

**Company Balance Sheet**
**(before appropriation of the result)**

| | Note | 31 December 2009 | 2008 |
|---|---|---|---|
| | | EUR (thousands) | |
| **ASSETS** | | | |
| **FIXED ASSETS** | | | |
| **Intangible fixed assets** | 3 | **170** | 216 |
| **Property and equipment** | 4 | **31** | 31 |
| **Financial fixed assets** | | | |
| Deferred tax asset | | **1,275** | - |
| Investment in subsidiaries | 5 | **171,575** | 149,220 |
| **Total fixed assets** | | **173,051** | 149,467 |
| **CURRENT ASSETS** | | | |
| **Receivables** | | | |
| Receivable from subsidiaries | | **30,514** | 19,545 |
| Receivable from related parties | | **64** | 60 |
| Income taxes receivable | | **44** | 44 |
| Other accounts receivable and prepaid items | | **2,128** | 1,258 |
| **Marketable securities** | | **109** | 1,324 |
| **Liquid funds** | | | |
| Cash and cash equivalents | | **62** | 3,516 |
| **Total current assets** | | **32,921** | 25,747 |
| **TOTAL ASSETS** | | **205,972** | 175,214 |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **SHAREHOLDERS' EQUITY** | 6 | | |
| Share capital | | **508** | 508 |
| Share premium reserve | | **90,377** | 90,377 |
| Accumulated currency translation adjustments | | **(4,417)** | (4,852) |
| Hedge reserve | | **1,274** | 2,483 |
| Retained earnings | | **71,628** | 53,854 |
| Net profit for the year | | **24,426** | 17,656 |
| **Total shareholders' equity** | | **183,796** | 160,026 |
| **CURRENT LIABILITIES** | | | |
| Trade accounts payable | | **136** | 271 |
| Payable to subsidiaries | | **21,604** | 14,581 |
| Other accounts payable | | **436** | 336 |
| **Total current liabilities** | | **22,176** | 15,188 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **205,972** | 175,214 |

The notes on pages 109 to 113 are an integral part of the company financial statements.

## Company Income Statement

| | Note | 31 December 2009 | 31 December 2008 |
|---|---|---|---|
| | | EUR (thousands) | |
| Revenue | | **1,959** | 1,383 |
| General and administrative expenses | | **(1,871)** | (1,884) |
| **Net operating result** | | **88** | (501) |
| Financial income | 7 | **269** | 48 |
| Financial expenses | 8 | **(311)** | (104) |
| **Operating result before taxation** | | **46** | (557) |
| Income taxes | 9 | **1,270** | - |
| **Net result after taxation** | | **1,316** | (557) |
| Result from subsidiaries after taxation | 5 | **23,110** | 18,213 |
| **Net income** | | **24,426** | 17,656 |

The notes on pages 109 to 113 are an integral part of the Company Financial Statements.

## Company Statement of Changes in Shareholders' Equity

| | Share capital | Share premium reserve | Accumulate d currency translation adjustments | Hedge reserve | Retained earnings | Net profit for the year | Total |
|---|---|---|---|---|---|---|---|
| | EUR (thousands) | | | | | | |
| Balance as of 1 January 2008 | 508 | 90,377 | 11,605 | - | 37,057 | 16,624 | 156,171 |
| Profit appropriation prior year | - | - | - | - | 16,624 | (16,624) | - |
| Share-based payments | - | - | - | - | 173 | | 173 |
| Net profit for the year 2008 | - | - | - | - | - | 17,656 | 17,656 |
| Foreign currency translation adjustment | - | - | (16,457) | - | - | - | (16,457) |
| Effective portion in fair value of cash flow hedges ** | - | - | - | 2,483 | - | - | 2,483 |
| Balance as of 31 December 2008 | 508 | 90,377 | (4,852) | 2,483 | 53,854 | 17,656 | 160,026 |
| **Profit appropriation prior year** | **-** | **-** | **-** | **-** | **17,656** | **(17,656)** | **-** |
| **Share-based payments** | **-** | **-** | **-** | **-** | **118** | | **118** |
| **Net profit for the year 2009** | **-** | **-** | **-** | **-** | **-** | **24,426** | **24,426** |
| **Foreign currency translation adjustment** | **-** | **-** | **435** | **-** | **-** | **-** | **435** |
| **Effective portion in fair value of cash flow hedges **** | **-** | **-** | **-** | **(1,209)** | **-** | **-** | **(1,209)** |
| **Balance as of 31 December 2009** | **508** | **90,377** | **(4,417)** | **1,274** | **71,628** | **24,426** | **183,796** |

* Represents changes in fair value adjustment of cash flow hedges related to part of the Company's future transactions denominated in currencies other than the functional currency (see Note 32 to the consolidated financial statements).

The notes on pages 109 to 113 are an integral part of the company financial statements.

## Company Statement of Cash Flows

| | For the year ended 31 December 2009 | For the year ended 31 December 2008 |
|---|---|---|
| | EUR (thousands) | |
| **Cash flows from operating activities** | | |
| Net operating result | **88** | (501) |
| *Adjustments to reconcile net income to net cash provided by operating activities*: | | |
| Depreciation and amortisation | **46** | 11 |
| Effect of foreign currency exchange and others | **(774)** | (99) |
| Interest received | **269** | 48 |
| Interest paid | **(311)** | (104) |
| Income taxes paid | **(6)** | - |
| ***Net cash used in operating activities before working capital*** | **(688)** | (645) |
| Movement in receivables and payables form subsidiaries | **(3,946)** | 4,972 |
| increase in prepaid expenses | **(870)** | (703) |
| Increase in other accounts payable | **(38)** | 311 |
| Equity share-based payments | **118** | 173 |
| **Net cash (used in)/provided by operating activities** | **(5,424)** | 4,108 |
| **Cash flows from investing activities** | | |
| Purchase of intangible fixed assets | **-** | (227) |
| Dividends received from subsidiaries | **-** | - |
| Investment in subsidiaries | **755** | (423) |
| Net changes in marketable securities | **1,215** | (1,324) |
| Proceeds from disposition of subsidiaries | | 13 |
| **Net cash provided by/(used in) investing activities** | **1,970** | (1,961) |
| Increase/(decrease) in cash and cash equivalents | **(3,454)** | 2,147 |
| Cash and cash equivalents at beginning of year | **3,516** | 1,369 |
| **Cash and cash equivalents at end of year** | **62** | 3,516 |

The notes on pages 109 to 113 are an integral part of the company financial statements.

## Note 1 - General

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

The shares in the Company are traded on the Warsaw Stock Exchange. As at 31 December 2009, 64.35% of the outstanding shares are held by I.T. International Theatres Ltd. ('ITIT'), incorporated in Israel. The Company is a subsidiary of I.T. International Theatres Ltd. ('ITIT'), incorporated in Israel.

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

## Note 2 - Accounting principles

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

## Note 3 - Intangible fixed assets

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

| Composition: | For the year ended 31 December 2009 | | | |
|---|---|---|---|---|
| | **Balance at beginning of the year** | **Additions during the year** | **Sales and disposals during the year** | **Balance at year-end** |
| | **EUR (thousands)** | | | |
| Cost | **227** | **-** | **-** | **227** |
| Accumulated amortisation | **(11)** | **(46)** | **-** | **(57)** |
| **Carrying value** | **216** | **(46)** | **-** | **170** |

# Note 3 - Intangible fixed assets (cont'd)

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

Composition:

| | For the year ended 31 December 2008 | | | |
|---|---|---|---|---|
| | **Balance at beginning of the year** | **Additions during the year** | **Sales and disposals during the year** | **Balance at year-end** |
| | **EUR (thousands)** | | | |
| Cost | - | 227 | - | 227 |
| Accumulated amortisation | - | (11) | - | (11) |
| **Carrying value** | - | 216 | - | 216 |

# Note 4 - Property and equipment

Composition:

| | For the year ended 31 December 2009 | | | |
|---|---|---|---|---|
| | **Balance at beginning of the year** | **Additions during the year** | **Sales and disposals during the year** | **Balance at year-end** |
| | **EUR (thousands)** | | | |
| **Cost** | | | | |
| Cinema equipment (1) | **13** | **-** | **-** | **13** |
| Computers, furniture and office equipment | **18** | **-** | **-** | **18** |
| **Carrying value** | **31** | **-** | **-** | **31** |

| | For the year ended 31 December 2008 | | | |
|---|---|---|---|---|
| | **Balance at beginning of the year** | **Additions during the year** | **Sales and disposals during the year** | **Balance at year end** |
| | **EUR (thousands)** | | | |
| **Cost** | | | | |
| Cinema equipment (1) | 13 | - | - | 13 |
| Computers, furniture and office equipment | 18 | - | - | 18 |
| **Carrying value** | 31 | - | - | 31 |

(1) Consists of prepayments on account of IMAX® systems not operated yet. Therefore, no depreciation has been incurred.

## Note 5 - Investment in subsidiaries

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

| The movements in subsidiaries are as follows: | Financial year | |
|---|---|---|
| | 2009 | 2008 |
| | EUR (thousands) | |
| Balance at beginning of the year | **149,220** | 144,472 |
| Sale of subsidiaries | **-** | (13) |
| Currency translation adjustment | **(901)** | (13,875) |
| Investments in subsidiaries | **146** | 423 |
| Net result subsidiaries during the year | **23,110** | 18,213 |
| Balance at the end of the year | **171,575** | 149,220 |

## Note 6 - Shareholders' equity

As of 31 December 2009 and as of 31 December 2008, the authorised share capital of the Company consisted of 175,000,000 ordinary shares with a par value of EUR 0.01 each. For details on shares issued during 2009 and 2008, reference is made to Note 16 of the consolidated financial statements.

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

## Note 7 - Financial income

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

## Note 8 - Financial expenses

The financial expense relates mainly to foreign currency exchange losses of EUR 77,000 (2008: EUR 6,000) and interest expense payable to Group companies of EUR 234,000 (2008: EUR 98,000).

## Note 9 - Income taxes

No Dutch income taxes have been recorded primarily because of available tax losses carried forward from prior years. Realisation of this deferred income tax asset is dependent upon generating sufficient taxable income in the period that the deferred income tax asset is realised. Based on all available information, it is probable that the deferred income tax asset is realisable and therefore the deferred tax asset is valued at EUR 1,275,000.
The accumulated tax losses carried forward as per 31 December 2009 are estimated to be EUR 6,466,000 (31 December 2008: EUR 3,759,000).

## Note 10 - Personnel

The Company employed no employees during the years 2009 and 2008.

## Note 11 - Directors' remuneration

The Board of Managing Directors of the Company consists of 3 members; the board members are entitled to a total remuneration of EUR 2,507,000 during the year 2009 (2008: EUR 1,911,000). The amount of remuneration also includes fees, salaries and bonuses paid and have been paid through the Company's subsidiaries.
The Supervisory Board of the Company consists of 6 members; the supervisory directors are entitled to an annual fee of EUR 8,500 plus an amount of EUR 1,500 per board meeting (EUR 750 if attendance is by telephone). The total amount due in respect of Supervisory Board fees during 2009 is EUR 122,000 (2008: EUR 93,000).
For the remuneration elements received by the individual Board members, reference is made to Note 31 of the consolidated financial statements.

## Note 12 - Information about agreed-upon engagements of the Group's auditor

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

| | 31 December | |
|---|---|---|
| | 2009 | 2008 |
| | EUR (thousands) | |
| Remuneration for audit KPMG Accountants N.V | **175** | 180 |
| Remuneration for audit (other) (1) | **304** | 265 |
| Remuneration for other services (2) | **292** | 149 |
| | **771** | 594 |

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

(2) Remuneration includes other services rendered by the auditor in 2009 and 2008.

**Rotterdam,** 15 March 2010

**The Management Board**

| | | |
|---|---|---|
| Moshe Greidinger | Amos Weltsch | Israel Greidinger |

**Supervisory Board**

| | | |
|---|---|---|
| Coleman Kenneth Greidinger | Carrie Twist | Frank Pierce |
| Scott Rosenblum | Peter Weishut | Yair Shilhav |

## Articles of Association rules regarding profit appropriation

In accordance with Article 32 of the Articles of Association,

1) the Board of Managing Directors, with prior approval of the Supervisory Board, shall determine which portion of the profits – the positive balance of the profit and loss account – shall be reserved. The profit remaining shall be at the disposal of the General Meeting;
2) profit distributions may only be made to the extent the equity exceeds the paid and called-up part of the capital increased with the reserves which must be maintained pursuant to the law;
3) dividends shall be paid after adoption of the annual accounts evidencing that payment of dividends is lawful;
4) the Board of Managing Directors, with prior approval of the Supervisory Board may resolve to pay an interim dividend provided the requirement of the second paragraph has been complied with as shown by interim accounts drawn up in accordance with the provision of the law;
5) the General Meeting may, subject to due observance of the provision of paragraph 2 and upon a proposal by the managing directors, resolve to make distributions out of a reserve which need not to be maintained by virtue of the law;
6) cash payments in relation to bearer shares if and in as far as the distributions are payable outside the Netherlands, shall be made in the currency of the country where the shares are listed and in accordance with the applicable rules of the country in which the shares of the Company have been admitted to an official listing on a regulated stock exchange in accordance. If such currency is not the same as the legal tender in the Netherlands the amount shall be calculated against the exchange rate determined by The Netherlands Central Bank (‘De Nederlandsche Bank’) at the end of the day prior to the day on which the General Meeting shall resolve to make the distributions in accordance with the above. If and in as far as the Company on the first day on which the distribution is payable, pursuant to governmental measures or other extraordinary circumstances beyond its control is not able to pay on the place outside the Netherlands or in the relevant foreign currency, the Board of Managing Directors is authorised to determine to that extent that the payments shall be made in Euros and on one or more places in the Netherlands. In such case the provisions of the first sentence of this paragraph shall not apply.
7) the General Meeting may, upon a proposal by the managing directors which proposal was approved by the Supervisory Board, resolve to pay dividends, or make distributions out of a reserve which need not to be maintained by virtue of the law, wholly or partially in the form of shares in the capital of the Company;
8) a claim of a shareholder to receive a distribution expires after 5 years;
9) For the calculation of the amount of profit distribution, the shares held by the Company shall be excluded.

## Proposed profit appropriation

For the year ended 31 December 2009, Management proposes to allocate the net profit for the year 2009 amounting to EUR 24,426,000 to retained earnings. This proposal has not been reflected in the Company’s statement of financial position per 31 December 2009.

## Auditor's report

The auditor’s report is set out on pages 115 to 116.

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

# *AUDITOR'S REPORT*

### ***Report on the financial statements***

We have audited the accompanying 2009 financial statements of Cinema City International N.V., Rotterdam, as set out on pages 38 to 113. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2009, the income statement, statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company statement of financial position as at 31 December 2009, the company income statement, statement of changes in shareholders' equity and the statement of cash flows for the year then ended and the notes**.**

### **Management's responsibility**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Cinema City International N.V. as at 31 December 2009, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

## Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Cinema City International N.V. as at 31 December 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

### *Report on other legal and regulatory requirements*

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report set out on pages 16 to 37 is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 15 March 2010

KPMG ACCOUNTANTS N.V.

*Signed by*

P. Mizrachy RA