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Cineworld Group plc  
Annual Report and Accounts 2010

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## Business Review

Highlights 2010	01
A Real Cinema Experience	02
Chairman's Statement	04
Our Strategy	06
The Business Model	07
UK and Ireland Market Overview	07
Chief Executive and Chief Financial Officers' Review	08
Risks and Uncertainties	16
Corporate Responsibility	19

## Governance

Directors' Biographies	24
Directors' Report	26
Corporate Governance Statement	31
Directors' Remuneration Report	36
Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements	41
Independent Auditor's Report to the Members of Cineworld Group plc	42

## Financial Statements

Consolidated Statement of Comprehensive Income	43
Consolidated Statement of Financial Position	44
Consolidated Statement of Changes in Equity	45
Consolidated Statement of Cash Flows	46
Notes to the Consolidated Financial Statements	47
Company Balance Sheet	78
Company Reconciliation of Movements in Shareholders' Funds	79
Notes to the Company Financial Statements	80
Shareholder Information	84

**Cineworld is one  
of the UK's leading  
cinema groups**

# Highlights 2010

For comparability purposes all of the review below is on a 52 week to 52 week basis. A review against the prior year statutory reported results (53 week basis) is included in the Financial Performance section of this statement.

## Key Performance Indicators ("KPIs")

Group revenue £m	+4.8%	EBITDA* £m	+8.1%
09	333.4	09	55.7
09	327.1	09	54.6
<b>10</b>	<b>342.8</b>	<b>10</b>	<b>59.0</b>
■ Reported 53 weeks		■ Reported 53 weeks	

Profit before tax £m	+0.3%	Adjusted pro-forma diluted EPS pence	+11.7%
09	30.8	09	16.2
09	30.3	<b>10</b>	<b>18.1</b>
<b>10</b>	<b>30.4</b>		
■ Reported 53 weeks			

Proposed final dividend pence		Proposed full year dividend pence	+5.0%
09	6.8	09	10.0
<b>10</b>	<b>7.1</b>	<b>10</b>	<b>10.5</b>

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

## Other Key Highlights

- Number 1 cinema operator in the UK for 2010 with a box office market share of 26.2% (Rentrak/EDI);
- Box office up 4.1% at £235.8m against 2009;
- Admissions 2.1% lower than 2009 at 47.2m;
- Average ticket price per admission up 5.9% to £4.99 (2009: £4.71) with average retail spend per person holding firm at £1.73;
- Screen advertising revenues up almost 21%;
- Strong progress on digital conversion with over 50% of the estate now using digital projectors;
- Roll out of a new site at The O2 and deals signed for sites at the Wembley City retail development and at Aldershot and Leigh;
- Credit approvals received from a banking group for a new facility of £170m to finance future expansion and other opportunities.

# THE STATE OF PLAY

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Cineworld Group was founded in 1995 and is now one of the leading cinema groups in the UK and Ireland. We are dedicated to ensuring that every visit is memorable – unparalleled quality of service, great shows, comfortable seating and tempting retail offers.

With 78 cinemas, Cineworld offers a range of exceptional venues for corporate or private events. Our state-of-the-art digital projection facilities can display any type of media, from PowerPoint presentations to feature films. With stadium seating and capacity ranging from 15 to over 500 seats, Cineworld can offer the perfect size venue for every audience.

We continue to lead the way in digital and 3D technology. Cineworld currently has one of the largest number of digital projectors across the UK – showcasing 3D, live sport, live opera, interactive gaming or corporate presentations.

Our theatres offer excellent facilities and most have full disabled access.

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## 26.2%

UK Box office share

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## 4/10

4 out of top 10 grossing cinemas were Cineworld cinemas

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## +4.8%

Revenue increase 2009–2010

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# 801

screens

# 78

cinemas



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# +1m

Visits to Cineworld.com  
per week

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# > 1/4m

Unlimited customer membership

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# No.1

In 2010 Cineworld became  
the UK market leader





# In 2010, we achieved a milestone by becoming the largest cinema operator in the UK by total box office.



**Anthony Bloom**  
Chairman

It gives me much satisfaction to report another successful year of trading for the Group. The business has continued to deliver healthy growth in revenues and profits, and strong cash generation over the year. This good performance is despite a trading environment impacted by the football World Cup in June 2010 and the heavy snowfalls across the whole country during December 2010.

In view of this performance, the Group is able to propose a 5% increase in the full year dividend for 2010 to 10.5p, which follows the increase declared last year.

Considerable progress was made in 2010. The increase in numbers of 3D films has been widely publicised and cinema attendances for 3D films supported our strong performance. Our advertising business, Digital Cinema Media Limited ("DCM"), made further progress in the market as advertising spend showed good levels of recovery. We also continued to grow other revenue streams such as screening alternative content (including live 3D events such as the Six Nations rugby and the football World Cup) and providing venues for conferencing and other similar uses.

On 14 June, we announced our partnership with Arts Alliance Media ("AAM") which will lead to the roll out of digital projection facilities across the remainder of our cinema estate. It is an attractive deal which enables us to recoup a substantial proportion of our anticipated £40m investment as we earn the financial benefits from digital programming and 3D.

On 25 June, we signed a 25 year lease to operate the multiplex cinema at The O2 in London. The O2 is a major landmark and significantly raises our profile. We also announced an agreement for a 25 year lease for a new nine screen cinema at the Wembley City retail and leisure development, which is scheduled to open in 2013.

We remain committed to improving our operations through continual enhancement of the customer service and experience at our cinemas. Recent work carried out in our cinema in Wandsworth, London, to create a new look and feel for our customers, is a prime example.

In 2010, we achieved a milestone by becoming the largest cinema operator in the UK by total box office. This is a notable advancement over the previous year and demonstrates the success of our efforts to increase the competitiveness of our film and retail offers, our pricing and the comfort and accessibility of our cinemas.

The Blackstone Group sold its remaining 20.1% shareholding on 16 November 2010 through a placing which was well supported by a number of institutional investors. The Blackstone Group has been an excellent partner and has made a significant contribution to the Group over the last six years. Alan Roux left the Board following the divestment of the Blackstone holding and I would like to thank him for his valuable contribution to the business. Matthew Tooth, also originally appointed by the Blackstone Group, has agreed to remain on the Board.

I would also like to welcome two new members of the Board: Martina King and Rick Senat, who both joined on 2 July 2010 as independent Non-Executive Directors. They bring with them a wealth of experience in areas particularly relevant to Cineworld's activities, and have already made a significant contribution to the business.

I am pleased to report that terms and conditions for a new £170 million, five year facility have recently been negotiated with a group of banks and which is expected to be signed in the near future. This will provide the Group with a stable financial platform to enable it to carry out its expansion plans.

On behalf of the Board, I would like to thank our management and our employees for their accomplishments and hard work. We cannot rest on our laurels because the economic and financial outlook remains challenging. The Group, however, is in a strong financial and competitive position and possesses a very able management team and committed staff. This gives me full confidence in our ability to continue to deliver value to our shareholders in the future. It remains a pleasure to be associated with such a successful and well run business.

**Anthony Bloom**  
Chairman  
10 March 2011

# We will be bringing **a new friendly look** to our cinemas in 2011

## Wandsworth flagship

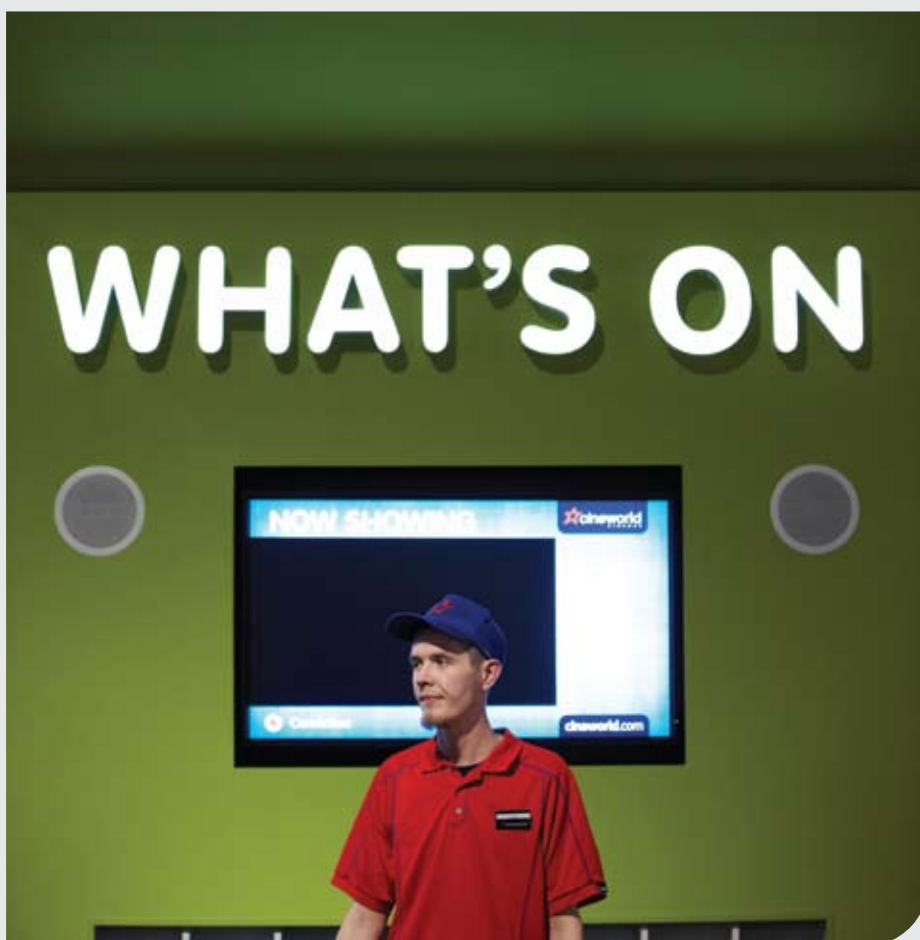
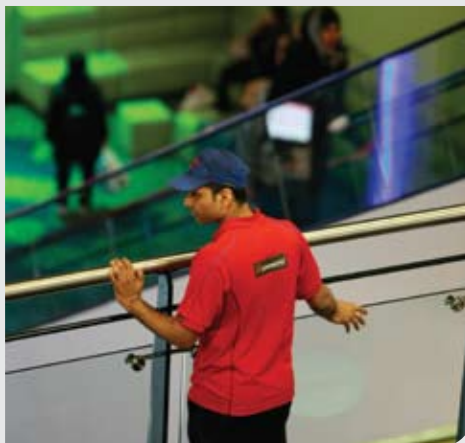
A brighter, lively, more informative environment has resulted from the recent refurbishment of Cineworld's Wandsworth cinema.

Completed in October 2010, the refurbishment and rebrand has created a friendly, relaxing atmosphere in the foyer. The new look cinema incorporates fresh designs that zone key areas for the customer. If they choose, customers can chill-out in the new relax zone while they watch trailers of upcoming films or even better still they can skip the queues and use the new and improved fast ticket zones.

According to General Manager, Henock Osei-Kissi, the redesign has improved the whole experience for customers. Results to date have been good with staff enjoying the positive feedback from customers who are responding well to the more welcoming environment.



for more information visit  
[www.cineworldplc.com](http://www.cineworldplc.com)



# Our Strategy

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

Our Strategy	In action	The future
<b>Develop and improve its offer to its customers</b>	We provide the widest range of films of any of the major UK exhibitors. This is facilitated by a high average number of screens per cinema.	We will continue to grow our strong knowledge of films and good relationships with film distributors.  We will seek to improve our understanding of our customers and their interests.
<b>Grow box office revenues</b>	Our bargain day and concession prices have been successful in reaching out to the value segment of the market.  Our success in screening 3D with the associated price premium.  We have developed strategic partnerships with household names.  Our Unlimited programme has in excess of 250,000 subscribers.	We will continue to use pricing to improve capacity utilisation and to encourage cinema-going.  We will continue to convert to digital to maximise our flexibility in screenings.  We will aim to increase the number of customers on our Unlimited programme.
<b>Increase retail spend per customer</b>	Our success in retail promotions from our staple Combo range to promotions targeted to customer types or linked to film activity.	We will continue to develop our product ranges and selected promotions that appeal to different consumer groups.
<b>Increase other revenue streams</b>	Our screen advertising business, DCM, has made good progress in attracting a wider range of advertisers.	By increasing our digital estate we aim to improve our offer to advertisers.
<b>Grow the estate through selective new openings, expansions and acquisitions</b>	In 2010, we acquired the cinema at The O2 centre, London and signed a deal for a cinema at the new Wembley city development to open in 2013.	We will open a cinema at Leigh, outside Manchester at the end of 2011.  Continue to develop relationships with developers.  Identify untapped smaller markets which may sustain smaller multiplexes.  Continue to keep abreast of opportunities within the cinema industry at home and overseas.
<b>Look to expand into complementary markets</b>	We have increased the range of alternative content screened this year and started to develop venue hire as a revenue stream.	We will further develop both propositions and seek to identify further opportunities and improve capacity utilisation at our cinemas.
<b>Use technology to improve our customers' experience and the efficiency of our operations</b>	In June 2010 we announced our partnership with AAM which will lead to roll out of digital projection facilities across the remainder of our cinema estate.	By increasing our digital estate we aim to improve efficiencies in the delivery of film and other content to provide a wider choice for our customers and advertisers.  We will develop our IT infrastructure to increase our capability to handle the widening range of customer offers and to understand our customers better and their requirements.



## The Business Model

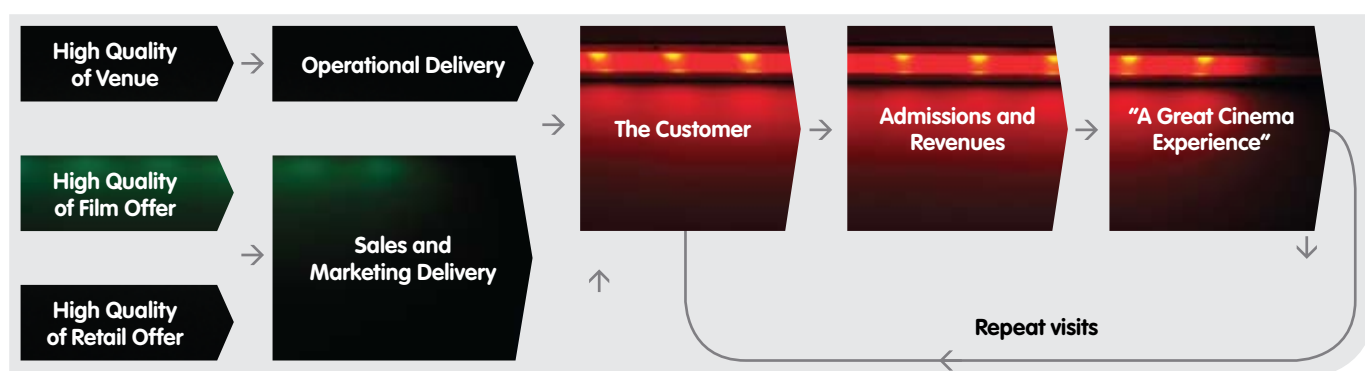
The key driver of our business is customers visiting our cinemas to see feature films (produced by the film studios). With 75 of our 78 cinemas being multiplex, we are able to show a broad range of films. The number of visits (“admissions”) multiplied by the net average entrance price (“ticket price”) gives the box office revenue.

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

- Retail sales to our customers comprising principally food and drink; and
- Revenue from advertisements shown on our screens prior to feature presentations.

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

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



## UK and Ireland Market Overview

The UK/Ireland cinema market continues to be dominated by three major UK exhibitors, Cineworld, Odeon UCI, and Vue. In total they account for over 70% of the total market box office and provide over 60% of the total screens in the UK. Cineworld is listed on the London Stock Exchange, while Odeon UCI and Vue are both privately owned groups.

The rest of the market is represented by smaller multiplex operators and independents which tend to operate non-multiplex cinemas (less than five screens). Of the three major chains, Cineworld has the smallest presence in Ireland with one, albeit significant, cinema in Dublin, being the fifth biggest cinema in UK/Ireland in 2010 by gross box office (Rentrak/EDI).

The market situation has remained largely constant for a number of years though the ownership of Vue changed in late 2010. There are significant barriers to entry, both through acquisition and organically. Competition law

limits the potential scope for major consolidation in the industry. The rate of new cinema openings has been falling in recent years, partly due to the limited number of new retail and leisure development opportunities and the long time to bring developments to fruition. This has been exacerbated more recently by reduced availability of funding for developers in the present financial climate, though confidence has started to improve.

Gross box office revenue in UK/Ireland increased 2.7% to £1.08bn (Rentrak/EDI) whilst UK admissions remained stable at c169m (CEA) demonstrating the resilience of cinema in the economic and consumer environment. The low price of going to the cinema compared to other forms of leisure and the desire for escapism have remained key attractions. Underpinning the overall success in 2010 was the strong line-up of films, the ongoing conversion to digital and the growth in the number of films released in the 3D format, up from 13 in 2009 to 25 in 2010 with over 30 anticipated in 2011.

## Chief Executive and Chief Financial Officers' Review

# Cineworld's success in 2010 was underpinned by a strong film line-up with an increased number of 3D films.



**Stephen Wiener**  
Chief Executive Officer



**Richard Jones**  
Chief Financial Officer

### Performance Overview

For comparability purposes all of the review discussion below is on a 52 week to 52 week basis.

In the 52 week financial year box office revenue increased 4.1% to £235.8m (2009: £226.5m), representing a box office market share in the UK and Ireland of 24.6% (2009: 23.9%). The Group's admissions were 1.0m, 2.1% lower than the prior year. Average ticket price per admission increased by 5.9% to £4.99 (2009: £4.71). Retail spend per person increased by 1p to £1.73 (2009: £1.72).

Cineworld's success in 2010 was underpinned by a strong film line up with an increased number of 3D films (25 films compared with 13 in 2009). Average ticket prices were higher because of modest general price increases and the benefit of the price uplift from 3D admissions. Almost 28.0% of market box office was from 3D for the full year, up from approximately 12.0% in 2009.

By the end of 2010, Cineworld had become the number one cinema operator in the UK for the period in terms of UK box office (Rentrak/EDI) with a market share of 26.2%.

### Box Office

A combination of modest price increases, the premium on 3D performances and stable admissions in the year enabled Cineworld's box office to increase 4.1% to £235.8m. Average ticket price per admission increased 5.9% to £4.99 (2009: £4.71). The increase was partly aided by the premium pricing on 3D performances. The average ticket price excluding VAT of 3D is in excess of £6.10 compared to 2D of almost £4.50. Cineworld nevertheless continues to offer its customers compelling value with the lowest average ticket price of any of the major UK cinema groups.

There were strong performances in the year from a number of core blockbusters which included "Harry Potter and the Deathly Hallows Part 1", "Inception", "Sex and the City 2", "The Twilight Saga: Eclipse" and "Iron Man 2". All these films performed above or in line with industry expectations. The year also saw the continued rise of 3D films with 25 films released in 3D, the most notable being "Toy

Story 3" (the highest grossing film of the year and the second highest grossing film of all time in the UK), "Alice in Wonderland", "Shrek Forever After", and "Clash of the Titans".

In line with our stated strategy, we continued to offer customers the broadest range of films on the market. There were a number of smaller and mid range films which performed well during the year including "Streetdance 3D", "The Prince of Persia: The Sands of Time", "Kick Ass" and "The Tourist" where we achieved higher individual market shares than our overall market average. We also remained the biggest exhibitor of Bollywood films in the UK with a market share in excess of 50%. We remained the only major chain to screen Tamil language films such as "Endhiran: The Robot", where we had an 87% market share. In addition, we showcased a series of other successful foreign language films such as the trilogy of films "The Girl with the Dragon Tattoo", "The Girl Who Played with Fire" and "The Girl Who Kicked the Hornets' Nest" which contributed favourably to our full year results.

We continued to make good progress during the year in developing our alternative content offering which has been made possible by our digital conversion. The notable events of the year included the 25th Anniversary shows of Les Miserables from The O2, the Big 4 Live (from Sofia) and Bon Jovi and Green Day concerts. Furthermore the successful broadcast of two live sporting events in 3D, namely the Six Nations Rugby and the latter stages of the football World Cup showed the possibility of screening such live events and proved that it was technically and logistically possible to exhibit such events from around the world. In the field of the performing arts, we screened a series of live shows from the New York Metropolitan Opera, the National Theatre and Glyndebourne, all of which were well attended. Alternative content is growing, but is currently still a niche offer and therefore a small contributor to revenues compared with film.

### Retail

It is pleasing to report that net retail spend per person held firm in 2010 at £1.73 (2009: £1.72). This is a reflection of the competitive offers and strength of our promotions.

**Cineworld delivered a strong financial performance for the year.**

	52 week period ended 30 December 2010 Total	Pro rated 52 week period ended 31 December 2009 Total	53 week period ended 31 December 2009 Total
<b>Admissions</b>	<b>47.2m</b>	48.2m	49.1m
	<b>£m</b>	£m	£m
<b>Box office</b>	<b>235.8</b>	226.5	230.9
<b>Retail</b>	<b>81.6</b>	82.8	84.4
<b>Other</b>	<b>25.4</b>	17.8	18.1
<b>Total revenue</b>	<b>342.8</b>	327.1	333.4

Our alternative content offering included the 25th Anniversary shows of Les Miserables from The O2, the Big 4 Live (from Sofia) and Bon Jovi and Green Day concerts.



As expected, our customers have become more value conscious given the tough economic backdrop, and we responded with a number of value initiatives which have been successful.

We also continued to invest in new equipment such as the roll out of new hot dog machines, enabling faster service and reduced wastage, and expanded the number of coffee machines to meet growing demand. The retail stand at Wandsworth was redesigned towards the end of the year, as part of a new design concept trialed at the cinema.

As previously reported, we renewed long-term arrangements with Coca Cola in the first quarter and the continuation of our partnership with this recognised brand has helped us to maintain the value of our overall drinks offer.

#### Advertising

Trading at Digital Cinema Media Limited ("DCM"), our joint venture screen advertising business formed in July 2008, improved markedly with screen advertising revenues rising almost 21% against the previous period. DCM's primary function is to sell advertising time on cinema screens on behalf of Cineworld and its other clients. It also engages in related promotional work between advertisers and cinemas. The increase in revenues generated for Cineworld against the previous period largely reflected the improvements in confidence amongst advertisers in general which helped to increase overall levels of demand. The management team at DCM has been driving operational efficiencies and effectiveness so that the business is well positioned to capitalise on the increased flexibility offered to advertisers via the digital format as well as on any improvements in the overall advertising market.

A major success for DCM was winning the account to provide screen advertising to the Vue Cinema circuit with effect from 1 January 2011.

Since the year end Martin Bowley, Managing Director of DCM has resigned and a replacement is being sought.

#### Investment in Digital

At the end of December 2010, Cineworld had one of the largest digital estates of any cinema operator in the UK. Digital projection is an important part of our strategy which enables the screening of films (2D and 3D) and other content using digital media. During the first quarter of 2010 we installed 102 digital projectors and, by the end of January 2011, we had completed the installation of a further 150 digital projectors, thereby resulting in over 50% of our estate having digital projectors.

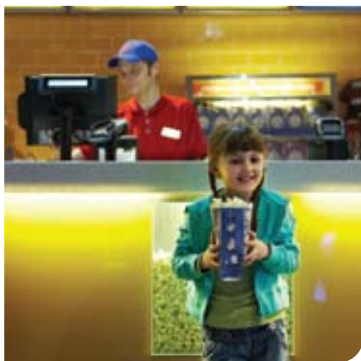
On 14 June 2010, we announced our agreement with Arts Alliance Media ("AAM") to roll out digital projection facilities across the remainder of our cinema estate. The deal will transform Cineworld and will enable us to convert our estate to fully digital within three years. The roll out will cost in the region of £25m, in addition to the c£15m already spent to date.

Under the AAM deal, Cineworld acquires the digital projectors directly from a third party and retains full control over the timing of their purchase and over their installation and operation. Cineworld benefits from AAM's systems, technical capabilities and utilising AAM's Virtual Print Fee ("VPF") agreements with film distributors and exhibitors. The VPF deal covers a ten year period during which AAM collect VPFs from film studios on behalf of Cineworld the first time a film is played in digital on a screen rather than in 35mm. VPFs are, for up to ten years, discounted from the cost Cineworld pays for film rental and reflects the cost savings to the studios of the move to digital. These discounts are expected to refund a substantial proportion of the total conversion cost of c£40m over a 7-10 year period before taking into account the associated benefits of 3D and digital.

#### Unlimited Card Programme

Our unique subscription service, Unlimited, offers a competitive value proposition to our customers. The service offers customers the opportunity to pay a fixed monthly (or annual) subscription which enables them to watch as many 2D films at our cinemas as they wish. Cineworld prides itself on being the only cinema operator in the UK and Ireland to offer this service which increased its membership

# Chief Executive and Chief Financial Officers' Review continued



further during the year. The service is one of the pillars which underpin our strategy of growing other revenues and admissions. It brings to the Group the financial benefits of regular subscription income reducing the level of fluctuation in our revenues. It also brings operational benefits by encouraging repeat visits, often at off-peak times. This, in turn, enables us to improve capacity utilisation at our cinemas, provide more retail opportunities and introduce a wider range of films than our competitors. As a result, we continued to enjoy significant market share among the smaller, less mainstream films in 2010.

#### Initiatives and Developments

Activity on our consumer website increased in the year, recording almost 54m visits which put it comfortably in the top 50 most visited websites in the UK (as reported in the IMRG Experian Hitwise Hit Shops List). The "My Cineworld" membership on the website continued its expansion with a total database of over 500,000 members. The growth of this portal is an important part of our strategy to engage further with our customers and, in turn, should enable us to improve our customer retention and to encourage more frequent visits to our cinemas. We extended our mobile enabled web booking service by being the first UK cinema chain in 2010 to launch an app for the iPhone.

Our corporate website was upgraded and relaunched in May 2010 as part of our plan to introduce electronic communications with our shareholders which went live towards the end of the year thereby helping to reduce our environmental impact.

Our partnership with Tesco through its Clubcard programme continued to flourish, aided by its TV advertising to promote the ticket offer, helping to raise Cineworld's brand profile nationally.

In addition, we have started to focus on improving utilisation of cinemas at off peak times particularly through the hire of individual auditoriums. We continue to make progress in offering our cinemas as venues for other purposes from corporate conferences and private film hires, through to educational meetings and religious gatherings on Sunday mornings.

#### Our People

Attracting, developing and retaining talented staff is important for our business. It is vital for our continued success that we encourage our employees' personal development and career progression. A new performance management process was successfully trialled in 2010 and was rolled out to the organisation at the start of 2011. It involved all senior and line managers with the aim of providing meaningful employees' objective setting and structured performance reviews. By using this framework we aim to increase further the high proportion of cinema management and supervisory positions which are held by internally promoted employees, thereby bringing operational and financial benefits to the Group. The new recruitment website, launched in early 2010, has produced positive feedback from cinema management. The website has proven to be a useful tool for improving the efficiency of the candidate selection process and ultimately improved staff retention.

#### Expansion

We continue to look for opportunities to expand our estate. On 25 June we acquired the trade and assets of the multiplex cinema at The O2 in London and agreed a 25 year lease with the Waterfront Limited Partnership, part of the Anschutz Entertainment Group ("AEG"), to operate it. The O2 is the world's most popular music venue by ticket sales (Source: Pollstar listed ticket sales) and the cinema is an 11 screen multiplex seating a total of 2,844 people with gross box office revenues of £4.1 million in 2009 (source: Rentrak/EDI). On 24 May we announced an agreement for a 25 year lease for a new nine screen cinema at the Wembley City retail and leisure development which will seat 1,800 people in total and which is scheduled to open in 2013.

In respect of 2011, we have plans to open a seven screen cinema in Leigh towards the end of the year and will commence fit out of a seven screen cinema in Aldershot (planned for opening in the first quarter of 2012). Whilst the uncertainty over development financing and timing of new projects continues, we have seen a rise in confidence in the property market during the year with renewed interest in existing proposals as well as new plans and ideas being tabled. Expansion remains a key strategic priority for the Group over the medium term



The successful live screening of certain high profile rugby and football events in 3D in 2010 has given us confidence to widen our horizons.

and we are ensuring that we have the financial capability, through a new increased bank facility, to pursue such opportunities. We are working with well known retail names on new developments as well as reviewing potential acquisition opportunities.

At 30 December 2010, the Group had increased its estate to 78 cinemas with 801 screens.

**Key Trends and Factors Potentially Affecting the Future**

The future success of the Group in 2011 will remain principally dependent on the strength of the film releases during the year. Sequels and franchises will continue to contribute

a significant number of the higher profile blockbuster films. Many such films outperform the original film or concept, so the film studios will continue to look to capitalise on proven successful formulae. The overall film release programme for 2011 is known and there is a strong line up of potential blockbusters.

The major product for the cinema industry will remain 2D films, though 3D films and other content will continue to gain popularity as more content is provided digitally. Our plans for digital mirror these trends and include converting our entire estate to digital which will provide greater flexibility in screening arrangements.

**Alternative content and conferencing**

With some unique features to offer the corporate market, the Cineworld cinema in The O2 has already started building its reputation as a specialist conference venue as well as a cinema. According to Marketing Manager, Alice Serras, its 11 digital state-of-the-art screens, including the Sky Superscreen -the largest in Europe – combined with Cineworld’s customer service credentials have helped it start to compete successfully in this highly competitive market. Events to date have included regional conferences from businesses based in Canary Wharf and hosting premieres for major theatrical releases.

for more information visit [www.cineworldplc.com](http://www.cineworldplc.com)





## Chief Executive and Chief Financial Officers' Review continued

The major element of other revenue is screen advertising revenue which reported strong growth of almost 21.0%, a reflection of the recovery in advertising demand.

In 2010 there were 25 3D films released. In 2011 there are over 30 3D films scheduled for release and studios are reportedly planning to convert some older film titles to 3D as well.

Customers have been prepared to pay higher ticket prices to see 3D films, even though certain sections of the customer base prefer to see 2D for cost reasons. Higher prices for 3D films are expected to continue and with an increasing number of 3D films planned for release, should support further revenue growth.

Within the area of alternative content, the successful live screening of certain high profile rugby and football events in 3D in 2010 has given us confidence to widen our horizons

beyond traditional art-based content such as plays, opera and concerts. The source of alternative content is currently fragmented. Stabilisation and consolidation amongst suppliers should increase the range of content, improve the operational delivery and result in financial savings. Revenues from alternative content are anticipated to grow further, albeit from a small base.

We have seen increased demand from advertisers which have benefited our screen advertising revenues in 2010 and anticipate that demand in the advertising industry in general will continue to hold up, supported by the greater flexibility offered by our conversion to digital.

### Cineworld O2 Cineworld's premier site

Located in the prestigious O2 arena, the newly acquired Cineworld O2 cinema is now a Cineworld flagship venue. The General Manager has focused on staff training and recruited a new management team to bring customer services up to Cineworld's exacting standards and meet the high level of customer's expectation from such an impressive venue.

Today the Cineworld sparkle is evident. Staff are proud of their venue and the "mystery shopper" scores were some of the highest in the Group in December 2010. Admissions have been growing and in February 2011 it successfully hosted the opening event of Justin Bieber's first Motion Picture – "Never Say Never".



for more information visit  
[www.cineworldplc.com](http://www.cineworldplc.com)



We aim to deliver the best experience to O2 from fresh popcorn to state-of-the-art 3D screens.

As reported last year, we continued to enjoy strong mid week business, particularly in conjunction with “Bargain Tuesdays” and “Orange Wednesdays” promotions which demonstrates that customers are seeking greater value in the current economic climate.

Plans for new cinemas will remain less certain until finance for developers becomes more readily available. Nevertheless we remain committed to expanding our business – through the development of complementary activities, opening more cinemas and through the acquisition of other cinema portfolios, facilitated by our strong financial position.

Cineworld will continue to offer a highly compelling choice within the wider range of entertainment and leisure activities. We believe going to the cinema remains one of the best value forms of popular entertainment and

will continue to attract audiences who seek quality film product and the immersive viewing experience that remains unmatched by any other media.

#### Revenues

Total revenue for 2010 was £342.8m a rise of 4.8% on the prior period (2009: £327.1m) or a 2.8% rise on a reported 53 week basis for 2009.

As a result of strong film product, we enjoyed excellent trading during the period. Box office revenue was 4.1% higher at £235.8m (2009: £226.5m) though admissions were 2.1% lower. Compared to the reported 53 week basis for 2009, box office revenue was 2.1% higher than 2009 on 3.9% less admissions.

Retail sales for the year were 1.4% lower at £81.6m (2009: £82.8m) or 3.2% lower against

#### Financial Performance

	52 week period ended 30 December 2010 Total	Pro rated 52 week period ended 31 December 2009 Total	53 week period ended 31 December 2009 Total
	£m	£m	£m
<b>Admissions</b>	<b>47.2m</b>	48.2m	49.1m
<b>Box office</b>	<b>235.8</b>	226.5	230.9
<b>Retail</b>	<b>81.6</b>	82.8	84.4
<b>Other</b>	<b>25.4</b>	17.8	18.1
<b>Total revenue</b>	<b>342.8</b>	327.1	333.4
<b>EBITDA*</b>	<b>59.0</b>	54.6	55.7
<b>Operating profit</b>	<b>37.1</b>	38.9	39.6
<b>Financial income</b>	<b>1.6</b>	1.2	1.2
<b>Financial expenses</b>	<b>(8.2)</b>	(9.7)	(9.9)
<b>Net financing costs</b>	<b>(6.6)</b>	(8.5)	(8.7)
<b>Share of loss from joint venture</b>	<b>(0.1)</b>	(0.1)	(0.1)
<b>Profit on ordinary activities before tax</b>	<b>30.4</b>	30.3	30.8
<b>Tax on profit on ordinary activities</b>	<b>(9.4)</b>	(10.2)	(10.4)
<b>Profit for the period attributable to equity holders of the Company</b>	<b>21.0</b>	20.1	20.4

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

# Chief Executive and Chief Financial Officers' Review continued



the reported 53 week basis. The fall in retail sales was due to reduced admissions given that the sales per person held firm at £1.73 (2009: £1.72), a satisfactory outcome given the challenging consumer environment.

Other revenues increased by 42.7% to £25.4m (2009: £17.8m). Compared to the 53 week reported basis for 2009 the increase was 40.3%. The major element of other revenue is screen advertising revenue which reported strong growth of almost 21.0%, a reflection of the recovery in advertising demand. Other revenues from non screen advertising such as ticket bookings, theatre hires and sales of 3D glasses were up 75.4% mainly due to the change to selling 3D glasses separately towards the end of 2009.

## **EBITDA and Operating Profit**

EBITDA was up 8.1% at £59.0m against the 2009 figure of £54.6m (5.9% higher than the reported 53 week basis for 2009) and was achieved through better customer spend levels and cost margins and continued management of operating costs. The estimated contribution to EBITDA from the additional week in 2009 is approximately £1.1m and approximately £0.6m to operating profit. Operating profit at £37.1m was lower than 2009 of £38.9m (reported 2009: £39.6m) due to property related provisions and net impairments of £0.8m and £3.2m respectively. A provision of £0.8m was made during the year to cover potential increases in dilapidations for two non-trading properties, where the Group believed it probable that it will exit the leases, and this was charged to administrative expenses. In addition, the Group made a net impairment charge of £3.2m. £4.5m of assets was impaired at sites where the Group considered that the carrying values of their assets exceeded the present values of the future expected cash flows generated at those sites and there were also impairment reversals of £1.3m of assets that had been impaired in the past. These assets related to sites where the conditions supporting the improvements in trading were considered sustainable in the future.

## **Earnings**

Overall profit on ordinary activities before tax was £30.4m compared with £30.3m in 2009.

Basic earnings per share amounted to 14.8p and adjusted pro-forma diluted earnings per share were 18.1p (using a normalised tax rate of 28.0%). This compares favourably with the 2009 adjusted pro-forma earnings per share of 16.2p. The weighted average number of shares during 2010 was 141.7m including 20,088 shares issued during the year.

## **Finance Costs**

The falls in interest rates in 2009 continued to benefit the Group in 2010, aided by the reduction in net debt. The interest expense in the year relates primarily to interest on bank debt. The majority of the remaining interest charge is non-cash interest on onerous leases, the pension scheme and the finance lease.

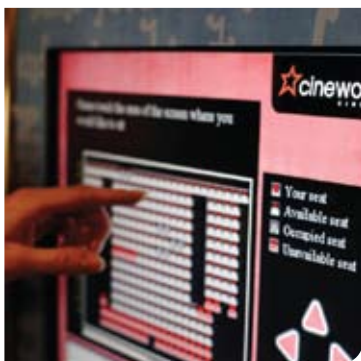
## **Taxation**

The overall tax charge was £9.4m giving an overall effective tax rate of 30.9% for the year (2009: 33.8%). The corporation tax charge consisted of the charge in respect of the current year of £8.3m and a credit of £0.6m relating to prior years. The balance of the tax charge of £1.7m principally resulted from the utilisation of a deferred tax asset relating to capital allowances (the difference between the tax written down value of the capital allowance and the net book value of the underlying assets).

## **Cash Flow and Balance Sheet**

The Group continued to be strongly cash generative at the operating level. Total cash generated from operations was lower than for 2009 (£50.7m compared to £54.6m in 2009) primarily due to the significantly lower trading levels in the weather affected December 2010 compared with 2009 and meant much lower creditor levels at the end of 2010 compared with 2009. The recovery in trading since the end of the year has helped to reverse the short-term outflow of operating cash in December and it will improve further in line with continued strong trade.

Net cash spent on capital for the year was £20.3m. Included in this cash expenditure was £9.4m in relation to the purchase of digital projectors (the balance of the cost of £10.5m was paid after the year end) and £4.2m for new sites including expenses for the acquisition of the cinema at The O2. The balance of other capital expenditure of £6.7m was for



equipment replacement, site refurbishments and expenditure on various initiatives such as website enhancements and upgrading of automated ticket sales points. The high level of internally generated cash has funded our entire capital expenditure whilst repaying term debt of £9m and paying dividends of £14.5m.

Net debt at the end of December 2010 fell to £100.8m (2009: £104.3m). Net debt included a £2.8m liability valuation of the interest rate swap hedge on the bank loan (2009: £3.9m liability). The liability position arose because the fixed rate of interest payable on the swap was higher than the three month LIBOR rate receivable on the hedged portion of the loan for the remainder of its term.

Like the previous year, the Group remained well within its banking covenants and continued to achieve the financial targets which enabled it to benefit from a low margin on its bank debt of 0.7% above three month LIBOR. Bank debt at the end of the year was comfortably below two times the EBITDA of 2010. The Group enjoys the security of a revolving credit facility of up to £30.0m (undrawn at the end of the year) as part of the overall bank facility which further enhances the Group's overall liquidity.

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

#### Dividends

The Directors are recommending to shareholders for approval a final dividend in respect of the period ended 30 December 2010 of 7.1p per share, which taken together with the interim dividend of 3.4p per share paid in October 2010, gives a total dividend in respect of 2010 of 10.5p per share, a 0.5p increase on the level in 2009. Subject to shareholder approval, the final dividend will be paid on 6 July 2011 to shareholders on the register at 10 June 2011.

#### Board Changes

On 2 July 2010, Martina King and Rick Senat were appointed to the Board as independent Non-Executive Directors. Martina King was the first Managing Director of Yahoo! UK and Ireland before becoming the Managing Director of Yahoo! Europe. Rick Senat has sat on the Boards of a number of film companies and worked for 24 years at Warner Bros. Martina King and Rick Senat were also appointed to the Remuneration and Audit Committees respectively. Both Directors bring with them a wealth of experience in areas particularly relevant to Cineworld's activities.

On 18 November 2010, Alan Roux left the Board, following the divestment by the Blackstone Group ("Blackstone") of its 20.1% interest in the Group. Blackstone's and Alan's contribution have been of great value. Matthew Tooth, the second Blackstone appointed director, agreed to stay on in an independent capacity.

#### Current Trading and Looking Ahead

With the improvement in the weather, the New Year has started well. We were pleased to see admissions return to levels expected for the time of year and have enjoyed some carry-over of business from the Christmas period, in particular with "Little Fockers" and "Gulliver's Travels". Moreover, the success of "The King's Speech" has exceeded box office expectations, grossing over £40m in the UK to date as well as winning 4 Oscar awards.

A combination of strong current trading and long-term balance sheet stability following the expected refinancing provides the Group with attractive additional flexibility to push ahead with its expansion plans.

With a strong film release schedule in 2011, including over 30 3D films, the continued roll out of our digital projectors, increasing expectations for screen advertising and the roll out of new sites, we are confident of the prospects for the business in the forthcoming year.

**Stephen Wiener**  
Chief Executive Officer

**Richard Jones**  
Chief Financial Officer

10 March 2011



# Cineworld has one of the largest digital and 3D estates in the UK and is better placed to address digital conversion.

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Cinema-going in the UK is driven primarily by output from Hollywood, which is dominated by six film studios.

The following is a summary of the principal business specific risks and uncertainties facing the Group rather than all risks. If any of these risks or other unforeseen risks materialise, they could have a serious adverse effect on the Group's business and its financial condition, in turn impacting upon the value of its securities in issue. Where possible and appropriate, the Group seeks to mitigate these risks and uncertainties. Some factors which may mitigate particular risks and uncertainties are also set out below. In determining whether a risk is principal or not regard has been taken of the Group's risk register, the probability of a particular risk crystallising and the impact it would have if it did.

### Availability of Film Content

Cinema-going in the UK is driven primarily by output from Hollywood, which is dominated by six film studios. There is a risk that these studios may seek to negotiate film hire terms less favourable to Cineworld. Such a move could be countered in part by Cineworld's negotiating position due to its market share in the UK and Irish markets.

During periods where there are fewer or no major films to drive cinema attendance, our box office revenues may decline. Cineworld's Unlimited card subscription service generates regular subscription revenues which helps to offset lower box office receipts during quieter trading periods. It is also part of Cineworld's wider strategy to promote interest in a range of films beyond the traditional Hollywood blockbuster in such areas as Bollywood, other foreign language and small and mid-range films.

### Poor Film Scheduling

After release, the commercial success of a film can easily be measured by the level of box office revenues. There are however inherent risks in trying to forecast the success of a film due to the subjective qualities of the product and preferences of the customer. Cineworld employs a specialist team which focuses specifically on such matters and is experienced in film booking and scheduling.

### Digital Conversion

Although over half of Cineworld's projection facilities are now digital, a significant

proportion remains in 35mm, as is the case with the whole UK cinema industry. The slow conversion to digital within the UK cinema industry is mainly due to the high costs of new equipment. The film studios stand to make significant savings from producing digital prints due to lower film distribution and production costs and there is a risk that the film studios will be encouraged to reduce the supply of new films in 35mm. This, in turn, could make 35mm prints more difficult to obtain and more costly to hire, and require conversion to happen faster.

Cineworld currently has one of the largest digital and 3D estates in the UK and is financially better placed than many other exhibitors in the UK to address the digital conversion issue. As conversion continues, the risk will reduce.

### Alternative Media

Film studios may choose to release their films through other channels instead of primarily through exhibition at cinemas. The box office success of a film is often, however, an important factor in establishing its value in subsequent film distribution channels such as streaming, DVD, cable and pay television and the internet.

Also the film studios may seek to reduce the release window (the period between the film being released at the cinema and other distribution channels as mentioned above). The window is currently agreed at approximately 16 weeks, to capitalise on box office awareness and success. Cinema exhibitors have, historically, mitigated this threat by refusing to screen films which has minimised reductions in the release window to date.

The existence of DVD (and video before that) has proven the ability of cinema to co-exist with alternative media. Additionally the increase in use of digital and 3D technology in cinemas should encourage the film studios to continue to use cinemas as the primary release channel.

### Advancement of Technology

The continuing development of existing and new technology (such as 3D television) may introduce new competitive forces for the film-going audience. The cinema does, however, provide a unique social experience that to date cannot be matched by watching films at home.





### **Film Piracy**

Film piracy (aided by technological advances) has long-term implications for the business and industry as it may eventually force film studios to invest less in films resulting in the release of fewer films and/or an increase in the use of other channels for releasing films. So far, the impact of piracy has been higher on alternative media (especially on DVD) than on cinema. Furthermore, it is currently not possible to produce a 3D pirated version of the original film from a portable recording device used in a cinema.



### **Screen Advertising Revenue**

Screen advertising accounts for a significant proportion of the Group's profits and the level of revenues earned will be affected by the overall demand for advertising and the competitive pressures for that advertising spend. The formation of Digital Cinema Media Limited in 2008, with a joint venture partner, was a positive step towards taking closer control of future screen advertising revenues. The advantages of screening advertisements to a captive audience in cinemas and the flexibility of digital media to deliver more and varied advertising are potential opportunities to attract more advertisers and to generate higher revenues.

### **Poor Location Selection**

The selection of the wrong location for the development of a new cinema could result in lower than expected returns and a series of poor decisions on location could seriously impact the Group. Each potential site is reviewed carefully and the management team are experienced in the choice of location for, and development of, new sites.

### **Extreme Weather Conditions**

Unusual weather patterns such as unseasonably warm summers or extreme snowfalls in winter can impact attendances at cinemas and, particularly where this coincides with major film releases, it could have a significant effect on revenues. In 2010, heavy snowfalls prevented staff and customers travelling to cinemas resulting in their temporary closure and lower admission levels.

Most of our cinemas are air conditioned and, in periods of extended warm weather, historically audience levels have returned to near normal seasonal levels after a while.

### **UK and Global Economy**

The main driver of cinema-going is the film, although it is recognised that macro-economic influences may affect cinema-going and the level of retail spend per customer on each visit. With cinema being a less expensive form of entertainment and leisure, economic downturns may benefit cinemas at the expense of other entertainment and leisure activities.

Any reduced consumer demand may impact the level of advertising spend which may lead to reduced screen advertising revenues. In addition, the price of energy and foodstuffs has a direct impact on costs which we may not be able to pass on to customers.

The failure of one of the banks used by the Group could result in the loss of deposits and/or banking facilities. Banks are monitored and reviewed and deposits spread between a number of institutions to reduce the risk.

### **Availability of Capital**

The cost and availability of finance, both debt and equity, will affect the Group's ability to undertake investment and expansion. This has been highlighted by the recent developments in the financial world which have caused severe reductions in lending and reduced investor confidence. Limited availability of capital has impacted property developers who have not been able to proceed with developments which would have included new cinemas. Reduced lending may also affect the financing of film productions which could reduce the supply of films and/or delay their production and releases in cinemas.

### **Existing and New Competitors**

Existing competitors could change their strategies or a new competitor could enter the market at a local or national level reducing trade. The cost of developing new sites or acquiring existing cinemas are, however, barriers to entry as is the lack of readily available cinemas for acquisition.

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## Risks and Uncertainties continued

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Cineworld aspires to be a quality employer, seeking to provide the conditions to enable all employees to progress.

### **Loss of Key Management (or failure to attract or retain the talent required for its business)**

The policy of the Board is to attract, retain and motivate executives of the calibre and experience required, through competitive remuneration packages which may have a cost implication. Cineworld aspires to be a quality employer, seeking to provide the conditions to enable all employees to progress in their employment and develop their skills and abilities and to promote internally where possible.

### **Failure of IT Systems and Suppliers**

The failure of the Group's IT systems, including its website, telephone booking service and Unlimited card scheme administration, could seriously impact its continued success. The Group's website, telephone booking service and Unlimited card scheme administration are hosted by different specialist companies.

The cost of Cineworld's digital conversion is to be recovered via the "Virtual Print Fee" arrangement which will be administered via Arts Alliance Media ("AAM") on behalf of Cineworld. Any significant failure to recover these sums would adversely impact Cineworld's financial position.

Cineworld chose AAM because of the quality of its systems and experience in administering this type of contract. In addition, all suppliers are monitored and the Group employs an appropriately qualified team to maintain its in-house systems.

### **Government Regulations and Actions**

Cineworld's business and operations are affected by central and local regulations covering such matters as planning, the environment, health and safety, licensing, food and drink retailing, data protection and the minimum wage. Failure to comply with this type of legislation may result in fines and/or suspension of the activity or entire business operation. In addition, changes to pension legislation and regulation relating to the Group's defined benefit schemes, could result in additional costs from funding the scheme's liabilities or from changes in the way it is administered.

### **Terrorism**

Terrorist attacks, civil unrest, or other geopolitical uncertainty could adversely impact cinema attendances and the efficient operation of the Group's business.

# Cineworld seeks to integrate CSR considerations relating particularly to social, ethical, health and safety, and environmental issues in its day-to-day operations.

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Cineworld has continued to show a wider range of film including non-English language titles, smaller British releases and independent American productions.

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

### Community

Cineworld observes the British Board of Film Classification's guidelines for film classification unless the local authority specifies otherwise; within this, however, it seeks to show as wide a range of film product and other screen content as possible. This is frequently driven by the local community and its needs. Cineworld has been once again the number one exhibitor in the UK for Bollywood product with over 50% box office share over 47 titles. In addition, Cineworld has continued to show a wider range of film product than its main competitors in the multiplex industry including non-English language titles, smaller British releases and independent American productions. Cineworld has also continued to increase the amount of non-film alternative content which it exhibits. Live screenings from the Metropolitan Opera and the National Theatre have attracted different audiences to Cineworld cinemas across the country. There have also been live screenings of acts and shows as diverse as Bon Jovi, Metallica, Andre Rieu, Les Miserable and Simply Red. Cineworld has also shown live sport in 3D in the form of Six Nations Rugby and the FIFA World Cup. Screening such a wide range of content means that we attract a wider range of audiences into our cinemas and are able to distinguish ourselves in the marketplace from our principal competitors by offering more.

In 2010, Cineworld once again worked with various charities, local government and

community groups. Cineworld took part in a screening programme in conjunction with BAFTA and local children's hospices. In addition, Cineworld hosted the second annual screening for the British Forces Foundation for families whose members are serving abroad. Cineworld also hosted the national Times Spelling Bee competition. Many cinemas also work on their own individual projects with local charities. All these events increase the profile of the Cineworld brand and help place Cineworld at the centre of local communities as well as supporting worthy causes.

Cineworld was, once again, the major venue partner for the Edinburgh International Film Festival, the Jameson Dublin International Film Festival and the Bradford International Film Festival as well as taking part in a number of smaller regional and local festivals. It also continued its sponsorship of two MA scholarships at the National Film and Television School. These activities continue to increase awareness of the Cineworld brand in audiences that might not normally associate Cineworld with this kind of wider film based activity.

### Access for All

Cineworld has been keen to promote a "Movies for All" policy. Increasing accessibility results in local cinemas playing a fuller role in the communities in which they operate and offer larger potential audiences. On Saturday mornings it is still possible for children to see films for £1 which is a price that has not been increased for over 14 years. Senior citizens and students also receive discounts at certain times. Free tickets are offered to helpers of wheelchair users registered with the Cinema Exhibitor Association ("CEA").

All new cinemas are designed to exceed current statutory requirements to provide buildings which are technically advanced, yet meet high operational standards in terms of public service, safety and accessibility. They are designed to remove physical features which can hinder the use of the facility by the less physically able, so that auditoriums are as accessible as possible given the restrictions of any particular location. The opportunity is also taken to enhance access within cinemas when they undergo major refurbishment as part of an on-going programme of improvements.

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The business has a Disability Focus Group which meets regularly to review all aspects of disability access and the improvement in the services provided in this area.

The business has a Disability Focus Group which meets regularly to review all aspects of disability access and the improvement in the services provided in this area which include regular screenings of subtitled and audio descriptive films, the installation of infrared systems in all new build cinemas and a programme of replacing induction loop systems in older cinemas during refurbishments. All these changes have helped to improve overall coverage for the hard of hearing within the cinemas and are linked to digital projection becoming more widespread. With an ongoing programme being implemented for the installation of digital projection to existing cinemas and full digital projection being installed in new cinemas, it will be possible to provide further improvements in our facilities for the hard of hearing and the partially sighted. By 31 December 2010, 377 screens with digital projection had been upgraded in this way with plans to complete upgrades for all cinemas by late 2012.

#### **Film Piracy**

With the increase in simultaneous worldwide film releases and UK first releases, there remains a significant risk of piracy within the cinema industry. Cineworld continued to work closely with the CEA, Federation Against Copyright Theft ("FACT") and INFA©T Ireland in order to help reduce and prevent film piracy. In line with Cineworld's operational strategy, each cinema management team is responsible for ensuring that they do everything reasonably practicable, including the use of night vision technology, to protect the intellectual property rights of films and alternative content exhibited within our cinemas.

With the ever changing threat of evolving technologies and smaller undetectable recording devices, Cineworld mitigates this risk by constantly reviewing and developing its training programme, policies and procedures to ensure its staff are able to combat film piracy effectively. Each member of cinema staff is now required to complete the FACT Film Test as part of their induction and ongoing training. Cineworld also increases the level of vigilance around high-profile vulnerable titles when released.

There were a number of notable successes in 2010 such as the police in Glasgow arresting and charging an individual with five counts relating to copyright laws following a very complex investigation with FACT, the police and Cineworld working together. This investigation has now led to many further arrests in the Midlands area and the resulting prosecutions are currently on-going. In another case, Birmingham police prosecuted an individual following a recording incident at Cineworld in Broad Street earlier in the year. These successes have resulted in a number of awards for our staff including four being made by FACT to Cineworld employees for the work done in detecting piracy activity at a ceremony in September hosted by Paramount Pictures, one of the major film distributors.

#### **Environment**

Cineworld seeks to comply with all relevant environmental legislation and to operate in an environmental sensitive manner. The Directors acknowledge the impact that the business has on the environment and is operating a number of processes to reduce the quantity of paper and packaging that is used in the business. Employees are encouraged to eliminate unnecessary travel and use other methods of communication in its place. Computer and other office equipment that has reached the end of its working life is resold, recycled or donated to local organisations as appropriate.

Being a multi-site business, the Group is conscious of its total energy consumption and the amount of waste materials generated and is actively working to reduce both energy usage and the quantity of waste materials produced that cannot be recycled. The Group continues to run pilot projects to evaluate possible measures to reduce its environmental impact. One such trial which is currently being run is the installation of LED lamps, detector switches and daylight sensors at the Cardiff cinema to help reduce energy usage. The impact of such work is evaluated and rolled out to further sites if appropriate.

As required during the year, the Group registered in the Environment Agency's Carbon Reduction Commitment Energy Efficiency Scheme ("CRC") which will track carbon emission from energy consumption of our



UK cinemas. The majority of our cinemas already have half-hour read electricity meters or automated meter reading ("AMR") meters. To improve monitoring of energy usage, AMR meters are being installed in the remaining cinemas that have old style electricity meters and this is expected to be completed in the first half of 2011. The installation of AMR gas meters has also been commenced with 41 installed by the end of 2010. Cinemas that have the up-to-date meters receive a weekly consumption report which enables them to monitor actual usage against expected energy usage. In addition, an Energy Champion has been appointed at each cinema to focus on best practices in order to drive reduction in energy consumption. As a consequence of the steps already taken, over half of our cinemas used less electricity than in the prior year and the Group achieved in total a 2% reduction in electricity use across 67 comparable sites.

The conversion to digital technology, which continued during the year, further reduced Cineworld's environmental impact. The move away from 35mm celluloid prints represents a direct reduction in the use of raw materials for the production of these bulky prints using chemical processes, but also the amount of waste that is ultimately produced as these prints are shredded and are unable to be recycled at the end of their relatively short life. In addition, the distribution of digital content through small hard drives is greatly reducing the delivery costs and associated carbon footprint. Throughout the year, over 25% of film content and 100% of all alternative content was delivered in digital format. One film was successfully delivered solely by satellite to sixteen sites during the year as a trial. Ultimately cable or satellite delivery should remove the carbon impact almost completely.

The introduction of 3D technology has brought its own challenges. Throughout the UK, the use of special disposable 3D glasses to enable this format has been the norm. In early 2009, Cineworld started to recycle these glasses and this had a significant impact on the amount of wastage. In November 2009, it altered its pricing structure from a premium for 3D films with "free" glasses to a smaller premium but with customers being required to purchase glasses separately. This change has

significantly encouraged customers to retain their glasses for future use and, during 2010, on average around 40% of audiences for 3D films brought with them glasses obtained from previous visits. In addition, the marketing of special 3D glasses has, and should, continue to help the level of reuse accelerate.

#### **Retail**

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

2010 saw the full roll out of two key initiatives commenced last year. Firstly, all of Cineworld's sites now serve popcorn made using GM free rapeseed oil, a much healthier option than the previous coconut oil to which customer reaction has been favourable. In addition in the first quarter, we completed the switch to the new, slimmer popcorn bag reducing raw materials by some 39% in this respect.

We are now working with our principal suppliers on improving aspects of our products and range in the area of both sizing and distribution. We are also undertaking a review of all sizes and combo packages to ensure that they meet customers' expectations and offer greater choice. As part of this review, we will also be exploring what we can offer in the way of more healthy options and how we can communicate more clearly the nutritional information for our unpackaged goods such as popcorn, hot dogs, nachos and dispensed soft drinks.

We continue to look to reduce the number of weekly deliveries into all of our sites. Each time a contract comes up for renewal, the renewal arrangements are carefully reviewed to ensure that they are not only commercially beneficial, but also that full account is taken of environmental considerations.

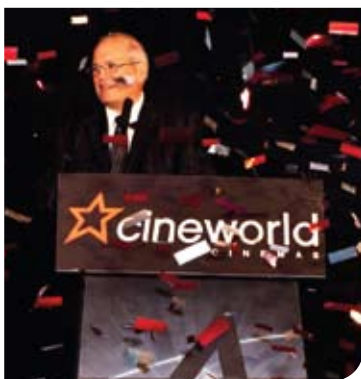
#### **Our People**

Cineworld's people remain central to its success and a number of Human Resources ("HR") initiatives were launched in 2010 to continue the business's on-going success.



## Corporate Responsibility continued

For site managers, a series of bespoke “core courses” ensure continual professional development, ensuring that learning is at the heart of the cinema operation.



Two HR initiatives were aimed at our most senior people. The first was a leadership development programme for our Executive Directors and Senior Managers and this involved 360 degree profiling combined with bespoke development plans. The second initiative called “The Academy” has been developed over the year and will commence in March 2011. It is over and above our core development programmes and is aimed at high potential managers. The Academy will develop existing high potential talent for our largest and most critical sites by providing skills in executive management and strategic leadership and will result in delegates achieving a qualification which is the equivalent to a master’s degree. It will provide a route for progression to those who want to advance and will ensure that the Group has sufficient quality candidates when vacancies arise at the largest sites.

Additionally, our ongoing learning and development programmes ensure that every employee receives a thorough induction and thereafter further development opportunities are available to help them progress within the Group. For site managers, a series of bespoke “core courses” ensure continual professional development, ensuring that learning is at the heart of the cinema operation. Our annual learning and development “event” course focuses on a particular aspect of the business with a film based theme. Our most recent event course, aimed at General Managers, was called “The Greatest Show on Earth”. It centred on customer service and recognised that, when people visit our cinemas, they should have the best experience possible.

In 2009, Cineworld introduced work based vocational qualifications (“NVQs”) into the business and developed this programme over 2010 with candidates being provided with support and encouragement to complete qualifications during work time. At present, 49 employees have completed qualifications with a further 77 learners on programmes at the beginning of 2011. It provides a route for progression for those people at lower levels in the organisation who want to advance and helps to ensure that the Group has the skills in its workforce which are key to its ongoing success.

### Stevenage

A 100% focus on the customer was one of the key reasons for Stevenage’s Georgina Jones’ success in being chosen as General Manager of the Year. Winner of this coveted award in 2010, Georgina’s and her team’s approach is helping the cinema produce strong results: attendances are rising steadily year-on-year and spend per customer is up.

The focus on customers begins with induction training and is reinforced by a hands-on management style where line managers are expected to be role models and set the standards for their teams to follow. Team meetings focus on “Mystery shopper” feedback and competitions, incentives and staff screenings keep staff involved and motivated. The team are proud of their site and it shows.



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Cineworld is proud that a high proportion of management and supervisory positions are held by employees who have started within the organisation at lower levels.



Cineworld is proud that a high proportion of management and supervisory positions are held by employees who have started within the organisation at lower levels. To ensure staff are engaged, motivated, developed and retained there is a performance management framework in place. All Head Office and site management employees have objectives set followed by a number of performance review discussions to support and stretch their performance allowing their full potential to be achieved. As part of this, development opportunities are identified and, in the summer of 2010, a “learning at work” day was launched for our Head Office people with 75 people attending sessions such as “Lead and Succeed”, “The Communication Edge”, “Win Win Negotiating Skills” and “Time-tastic Time Management Skills”.

All employees participate in the success of Cineworld through bonus schemes and Cineworld is proud that for the 16th consecutive year bonuses were paid to all qualifying staff in 2010. Cineworld is also committed to increasing the number of employees who hold shares in the Group. In December, 75 staff benefited from the first maturity of the SAYE Share Option Scheme, initially offered in 2007, and were able to acquire shares at £1.60, a price well below the prevailing market value.

All of our HR initiatives are aimed at ensuring Cineworld remains a great place to work and in turn, a great place to watch films. A number of focus groups were held throughout the year to ensure that working practices are continuously developed and, as part of this, employees were encouraged to share their views. Employees are also able to share their views and make suggestions to management at any time via a dedicated email address. Good ideas are captured and incorporated into ways of working going forward for the benefit of all.

### **Safety**

The ongoing management of the day-to-day health, safety and welfare of Cineworld's customers, staff and contractors is of prime concern with over 47 million customer visits a year. Further steps have been taken this year to ensure that each cinema management team has the knowledge, understanding and tools necessary to effectively manage health and

safety to a high standard within its site to keep all our staff, customers and other visitors as safe as possible.

During the 2009/10 year, all cinemas were again subject to a Fire, Food and Health and Safety Audit and overall achieved an average mark of 86% (with 85% now being considered the acceptable level of performance – up from 70% the previous year). The process was overseen and verified by external consultants. Follow-up audits were undertaken at sites where standards were not found to be at the level expected by the Group and regular monthly compliance monitoring was completed for all remaining sites by way of reviewing monthly audit update submissions.

To strengthen further the safety regime, in the last quarter of 2010, new compliance audits were introduced for all General Managers. These audits were followed by compliance audits undertaken by the Regional Managers. These two tiered audits were aimed at providing the General Managers of each cinema with a means of focusing on the major fire, food, health and safety and maintenance issues arising within their cinemas and to help the identification of any new issues arising as well as confirming how existing issues are being managed.

Early indications from the 2010/11 year audit cycle are that site standards have once again improved on last year's results with an average pass mark in excess of the previous figure. Like the audits in 2009/10, this year's audits are being undertaken on an unannounced basis in order to reflect the true operation of health and safety at each site.

An annual review of documented health and safety policies and procedures was also carried out in the latter part of the year to ensure that they reflected changing legislative standards as well as recommended good practices.

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## Directors' Biographies



### **1. Anthony Herbert Bloom, Chairman – Age 72**

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

### **2. Richard David Jones, Chief Financial Officer – Age 49**

Richard Jones joined the Board in March 2006. Mr Jones joined Touche Ross in 1984 where he qualified as a chartered accountant and worked in the audit and corporate finance teams. In 1993, Mr Jones moved to the corporate finance division at Clark Whitehill and, in November 1995, he joined the team at Cine-UK Limited. He was appointed Group Chief Financial Officer in 2005 and has responsibility for all aspects of finance for the Group including accounting, taxation, treasury and business planning. He is also responsible for IT. Mr Jones holds a degree in mathematics from the University of Warwick.

### **3. Matthew David Tooth, Non-Executive Director – Age 35**

Matthew Tooth joined the Board in August 2004. Mr Tooth is a Managing Director in the Private Equity group at the Blackstone Group International Limited and is responsible for Blackstone's investments in the European leisure and consumer sectors. He is also a Director of ICS Group. Prior to joining Blackstone in 2003, Mr Tooth worked in the M&A and leveraged finance teams at CSFB. Mr Tooth was previously a Director of Orangina-Schweppes, Southern Cross and Merlin Entertainments. Mr. Tooth holds a first class honours degree in economics from Exeter University.

### **4. Peter Wodehouse Williams, Non-Executive Director – Age 57**

Peter Williams joined the Board in May 2006. He is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. He is the Senior Independent Director of ASOS plc and Sportech PLC, a Non-Executive Director of Silverstone Holdings Limited and is a member of the Design Council. Peter recently worked for EMI Group during 2010 as an Executive Director of Maltby Investment Limited. From December 2008 to May 2009, he was an Executive Director of JJB Sports Plc, responsible for the turnaround strategy and business restructuring. Previously he was Chief Executive at Alpha Group plc and prior to that Chief Executive of Selfridges plc where he also acted as Chief Financial Officer for over ten years. Mr Williams has a degree in Mathematics from Bristol University and is a chartered accountant.



**5. Stephen Mark Wiener, Chief Executive Officer – Age 59**

Stephen Wiener joined the Board in October 2004. He has 41 years' experience in the cinema industry, starting in the US as an usher whilst a full time student, and rising through various roles culminating in Vice President for Cineplex Odeon in New York City. He then moved to Warner Bros Europe in 1991 to become Managing Director. In 1995, he left to found Cine-UK Limited and developed the business into a chain of 34 cinemas before it was acquired by Blackstone in October 2004. At the time of the UGC acquisition, he was appointed Chief Executive Officer of the combined Group. He is also a Director of the Cinema Exhibitors Association and a Non-Executive Director of Digital Cinema Media Limited, the screen advertising company 50% owned by Cineworld.

**6. Thomas Berard McGrath, Non-Executive Director – Age 55**

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

**7. Martina Ann King, Non-Executive Director – Age 50**

Martina King joined the Board in July 2010. She is a member of the Remuneration Committee. Her career started in Sales at the Observer newspaper followed by ten years at The Guardian before becoming the Sales Director at Capital Radio and Managing Director of the London Stations. She became the first Managing Director of Yahoo! UK and Ireland in October 1999, then Chief Operating Officer of Yahoo! Europe in 2002 and Managing Director of Yahoo! Europe in 2003. Ms King is currently a Non-Executive Director of The Capita Group Plc, Debenhams Plc, IMD Plc and Tradedoubler AB, a Swedish company, as well as being a Trustee of Coram and a Governor of the Seckford Foundation.

**8. Eric (Rick) Hartley Senat, Non-Executive Director – Age 61**

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

**9. David Ossian Maloney, Non-Executive Director – Age 55**

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



# Directors' Report

The Directors present their Annual Report and the audited financial statements for the 52 week period ended 30 December 2010. The comparative period is for the 53 week period ended 31 December 2009.

## Principal activity

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

## Strategy and Business Review

The strategy of the Group is set out on page 6 and a review of its business and operations, including the main trends and factors likely to affect its future development and performance, is set out in the Chief Executive and Chief Financial Officers' Review on pages 8 to 15.

Key performance indicators are set out below and the principal risks and uncertainties are set out on pages 16 to 18. Information about environmental, employee and community issues is set out in part below and also in the Corporate Responsibility ("CR") section on pages 19 to 23.

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

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

## Key Performance Indicators ("KPI's")

	52 week period ended 30 December 2010	53 week period ended 31 December 2009
Admissions	47.2m	49.1m
Box Office Revenue	£235.8m	£230.9m
Average ticket price	£4.99	£4.71
Retail spend per customer	£1.73	£1.72
EBITDA	£59.0m	£55.7m

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

### Admissions

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

### Box Office Revenue

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

### Average Ticket Price and Retail Spend per Customer

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

### EBITDA

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

### Results and Dividends

The results for the Group for the 52 week period ended 30 December 2010 are presented under International Financial Reporting Standards ("IFRS") as adopted by the EU. The results for the period are set out in the Group Consolidated Statement of Comprehensive Income on page 43. The results for the parent company are drawn up under UK GAAP.

An interim dividend of 3.4p per share was paid on 8 October 2010. The Directors are recommending a final dividend of 7.1p which, if approved by the shareholders at the Annual General Meeting ("AGM"), will be paid on 6 July 2011 to shareholders on the register on 10 June 2011.

### Financial Risk Management

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

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

On 26 April 2007, as part of the IPO, the Group refinanced its bank loan and entered into a new five year facility agreement consisting of £135m loan and £30m revolving credit and overdraft facility to replace its previous facility of £246m. Half of the loan, an amount of £67.5m, was hedged in accordance with the terms of the facility agreement on a fixed rate of 5.35% whilst the remaining loan attracted interest at LIBOR. The whole loan attracted a margin of 0.7% during the year (originally 1.35%). The Group has taken steps to ensure that the swap is accounted for as a hedge and that changes in its valuation are recognised through reserves. Further information is provided in Note 21 to the financial statements.



## Directors and Directors' Interests

Short biographical details of the Directors of the Company, whom held office at the end of the period under review, are given on pages 24 and 25.

For so long as the Blackstone Shareholders (as defined below in the Major Shareholdings section) together held (i) at least 20% of the voting rights, they were entitled to appoint (and remove and reappoint) two Non-Executive Directors to the Board (each a "Blackstone Director"), one of whom was to be the Deputy Chairman of the Board and (ii) at least 10% of the voting rights, they were entitled to appoint (and remove and reappoint) one Non-Executive Director.

Following the sale by the Blackstone Shareholders of their total interest in the Company in November 2010, Alan Roux, the first Blackstone Director, stepped down as a Director with effect from 18 November 2011. Matthew Tooth, the second Blackstone Director, following a request from the Board, remained as a Director, but in an independent capacity.

In accordance with the Articles of Association (the "Articles"), one third of the Directors are retiring by rotation at the AGM and, being eligible, are offering themselves for re-election. The Directors retiring by rotation, are Anthony Bloom, Matthew Tooth and Peter Williams. In addition under the Articles, any Director appointed during the year must resign and stand for re-election at the next AGM and so both Martina King and Rick Senat will also be offering themselves for election. Following the Board evaluation process undertaken in November 2010, the Board is satisfied that each Director standing for election continues to show the necessary commitment and to be an effective member of the Board due to their skills, expertise and business acumen.

Details of the Directors' interests in the issued share capital of the Company at the beginning and end of the year under review are set out below. Details of the Directors' remuneration and information on their service contracts are set out in the Directors' Remuneration Report on pages 36 to 40.

Details of the Directors' interests in the ordinary shares of the Company arising under the Group's Share and Option Schemes are set out in the Remuneration Report on page 40. No rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial period.

None of the other Directors had any disclosable interest in the shares of Group companies and there have been no changes to Directors' share interests between 30 December 2010 and the date of this report.

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

Director	Ordinary shares held directly		Ordinary shares held by companies in which a Director has a beneficial interest	
	30 December 2010	31 December 2009	30 December 2010	31 December 2009
Anthony Bloom	–	–	1,723,224*	1,723,224*
Stephen Wiener	1,593,800	1,593,800	–	–
Richard Jones	247,939	247,939	–	–
Thomas McGrath	131,000	131,000	–	–
David Maloney	10,000	10,000	–	–
Peter Williams	10,000	10,000	–	–

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

None of the Directors has a material interest in any contract of significance to which the parent company or a subsidiary was a party during the financial year, other than as disclosed above, in their service contracts or letters of appointment described on page 38 and in Note 24, related parties.

## Conflicts of Interest

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

## Share Capital and Control

The Company has only one class of share capital formed of ordinary shares. All shares forming part of the ordinary share capital have the same rights and each carries one vote. Details of the share capital, and changes in it over the period, are shown in Note 20 to the financial statements. There has been an increase in the issued share capital between 30 December 2010 and the date of this report as a result of the issue of 15,960 ordinary shares to satisfy options being exercised under the Cineworld Group Sharesave Scheme.

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

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

## Directors' Report continued

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

### Major Shareholder Voting Arrangements

Until November 2010, Blackstone Capital Partners (Cayman) IV L.P., Blackstone Capital Partners (Cayman) IV-A L.P. and Blackstone Family Investment Partnership (Cayman) IV-A L.P. (together the "Blackstone Shareholders") in aggregate controlled the exercise of 20.09% of the rights to vote at general meetings of the Company. The Company and the Blackstone Shareholders entered into a Relationship Agreement dated 26 April 2007 to regulate the relationship between them. The Blackstone Shareholders undertook to exercise their voting powers to ensure that the Company was capable of carrying on its business for the benefit of shareholders of the Company as a whole and independently of the Blackstone Shareholders and further agreed not to exercise their voting rights in favour of any amendment to the Memorandum and Articles of Association of the Company in a manner which would be contrary with the principle of independence of the Company. The Relationship Agreement terminated in November 2010 when the Blackstone Shareholders and their affiliates collectively held less than 10% of the voting rights of the Company by selling their entire shareholding.

### Essential Contracts and Arrangements

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

### Change of Control

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

### Substantial Shareholdings

At 10 March 2011, the Group had been notified, pursuant to the Disclosure and Transparency Rules of the following interests in the voting rights of the Company:

	Voting Rights	% of Total Voting Rights	Nature of Holding
Artemis Investment Management Limited	22,535,349	15.90	Direct interest
Parvus Asset Management (UK) LLP	14,370,528	10.14	See Note 1 below
HSBC Holdings plc	14,163,717	10.00	Direct and indirect interest
Standard Life Investments Limited	11,925,194	8.42	Direct and indirect interest
AXA S.A.	7,201,070	5.08	Direct and indirect interest
Legal & General Group Plc	7,084,364	4.99	Direct interest
Tosca Fund Asset Management LLP	7,077,557	4.99	See Note 2 below
Rathbone Brothers PLC	7,024,615	4.95	Indirect interest
BlackRock Inc	6,958,733	4.91	See Note 3 below

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

Note 2: Disclosed as a CFD being a financial instrument with similar economic effect to a Qualifying Financial Instrument.

Note 3: Disclosed as an indirect interest in 6,488,958 shares plus a CFD (covering 688,357 voting rights) being a financial instrument with similar economic effect to a Qualifying Financial Instrument.

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

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

At the AGM held on 12 May 2010, shareholders gave authority for the allotment of shares up to an aggregate nominal value of up to £944,810 subject to certain conditions. This authority will expire on the earlier of the 2011 AGM and 11 August 2011. No shares have been issued under this authority except 36,048 ordinary shares in respect of the exercise of share options maturing under the Cineworld Group Sharesave Scheme. Details of the 20,088 ordinary shares issued in the period in this respect are set out in Note 20.

Also at the AGM held on 12 May 2010, shareholders gave authority for the purchase of up to 21,244,054 ordinary shares in the Company for cancellation or placing into treasury. No shares have been acquired under this authority.

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

### Annual General Meeting

The Notice convening the AGM, to be held at The Cineworld Cinema at The O2, Peninsular Square, London SE10 0AX at 11.00 am on 18 May 2011, is contained in the AGM circular. Details of all the resolutions to be proposed are set out in the AGM circular.

### Directors' and Officers' Insurance and Indemnities

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

### Political and Charitable Contributions

The Group's policy, which it has followed, is to make no donations to political parties. During the year, the Group made charitable donations of £38,000 (2009: £45,686) to a variety of local and national charities in the UK. In addition the Group supported over 20 film screenings on behalf of various charities in the year and responded to over 1,300 requests from charities and schools for free tickets.

### Payment of Suppliers

Cineworld Group plc, which holds the investments in the Group's companies, does not trade itself and does not have suppliers as defined by the Companies Act 2006. The Directors believe, however, it would be helpful to give the disclosures on a consolidated basis. The Group seeks the best possible terms from suppliers appropriate to its business and in placing orders gives consideration to quality, delivery, price and terms of payment. The Group does not follow a specific payment code but has a policy to pay its suppliers in accordance with the specific terms agreed with each supplier. The average number of days payments to suppliers were outstanding at 30 December 2010 for the Group was 24 days (2009: 32 days).

### Employees

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

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

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

### Corporate Governance

Details of the Group's Corporate Governance arrangements are set out in the Corporate Governance statement on pages 31 to 35 which together with the Directors' Remuneration report and the Directors' responsibilities statement form part of this report together with any other parts cross referenced from it.

### Corporate Responsibility

Cineworld recognises its responsibilities to the communities in which it operates and to operate in a way that respects the environment and people within those communities. Further details on its approach to such matters are set out in the Corporate Responsibility section on pages 19 to 23.

### Significant Events since the Year End

There were no significant events.

### Disclosure of information to Auditors

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

### Auditors

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

### Funding and Liquidity

Information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Chief Executive and Chief Financial Officer's report and the Risks and Uncertainties section on pages 8 to 18. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive and Chief Financial Officer's Report on pages 8 to 15. In addition Note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

As highlighted in Note 16 to the financial statements, the Group meets its day-to-day working capital requirements through its bank facilities which consist of a £102 million term loan plus £30 million revolver which matures in 2012. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance in the foreseeable future.

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

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

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## Directors' Report continued

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

By order of the Board

**R B Roy**

Company Secretary  
Cineworld Group plc  
10 March 2011

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

Registered: England  
No: 5212407

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# Corporate Governance Statement

## Compliance with the Combined Code

The Board is committed to ensuring that an appropriate standard of corporate governance is maintained throughout the Group. The principal governance rules applying to UK companies listed on the London Stock Exchange for the period covered by this statement are contained in the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 (the "Combined Code") and which is available on its website [www.frc.org.uk](http://www.frc.org.uk). For the year ended 30 December 2010, the Board considers that the Company was compliant with the provisions of the Combined Code except that the Chairman did not meet the independence criteria on his appointment (Code Provision A2.2). Further details are set out below under the heading "Directors and Directors' Independence", otherwise this report explains how the Company has complied with the provisions of the Combined Code. The information required to be disclosed by the Disclosure and Transparency Rules ("DTR") 7.1 and 7.2 is set out in this statement except that information required by DTR 7.2.6 which is set out in the Directors' Report on pages 26 to 30 and is incorporated in this statement by reference.

## The Board

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

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

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

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

## Directors and Directors' Independence

At the start of the year, the Board was composed of eight members, consisting of two Executive Directors and six Non-Executive Directors, three of whom were independent. In July 2010, two additional independent Non-Executive Directors were appointed and, in November 2010, a Non-Executive Director, not considered independent, resigned. Consequently, at the end of the year, the Board was composed of nine members, five of whom were independent.

Under provision A2.2 and A3.1 of the Combined Code, Anthony Bloom, a Non-Executive Director and Chairman of the Company, was not considered by the Board to be independent as at the time of his appointment as Chairman of the Company he also served as chairman on the board of another company, Cine-UK Limited,

within the Group and had held this position since its foundation in 1995. The Board considers that, although Anthony Bloom was not viewed as independent on appointment, his knowledge and understanding of the business are such as to justify him retaining the role as Chairman. Alan Roux (who resigned in November 2010) and Matthew Tooth, both Non-Executive Directors, were also considered by the Board not to be independent by virtue of their positions at the Blackstone Group, with whom the Blackstone Shareholders were affiliated. Until November 2010, the Blackstone Shareholders were significant shareholders in the Company. The names of the Directors at the year end together with their biographical details are set out on pages 24 and 25.

The terms and conditions of appointment of Non-Executive Directors are set out in letters of appointment and are made available for inspection by any person at the Company's registered office during normal business hours and will be available at the Annual General Meeting ("AGM"). Further details of the letters of appointment of the Non-Executive Directors and the service contracts of the Executive Directors can be found in the Directors' Remuneration Report on pages 36 and 40.

## The Roles of the Chairman and Chief Executive

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

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

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

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

## Independent Directors and the Company Secretary

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

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

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



## Corporate Governance Statement continued

The independent Non-Executive Directors bring an objective view point and range of experience to the Company and ensure that no individual or group of individuals is able to dominate the Board's decision making. All the Non-Executive Directors also have access to independent legal advice subject to consulting with the Board and following the agreed procedure.

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

### Professional Development and Performance Evaluation

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

During the year, a performance evaluation was carried out in respect of the Board, the Audit, Remuneration and Nomination Committees and each individual director including the Chairman. The process involved the completion of assessment questionnaires by each of the Directors and Committee Members. The results were then collated by the Company Secretary and a summary presented to the relevant Committee and the Board. The evaluation confirmed that overall the Board and Committee processes were working appropriately and the Directors including the Chairman were performing satisfactorily; however, there were a few matters identified where Directors felt that processes could be further improved and steps have been, and are being, taken to address these concerns.

Although Cineworld Group plc is not a FTSE350 company, the Board anticipates that, with effect from 2011 financial year, performance evaluations will be externally facilitated at least once every three years in accordance with The UK Corporate Governance Code (which will apply to the Group for the financial year commencing 1 January 2011).

### Board Committees

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

### Audit Committee

At the start of the year, the Company's Audit Committee comprised two independent Non-Executive Directors (namely David Maloney and Peter Williams). Rick Senat, another independent Non-Executive Director, was appointed as an additional member in July 2010. It met five times during the financial year. Both David Maloney and Peter Williams are considered by the Board to have recent and relevant financial experience. The Company considers that it complied with the Combined Code throughout the year as it recommends that the Audit Committee of a smaller company which is below the FTSE 350 should comprise of at least two members who should both be independent non-executive directors, and at least one member should have recent and relevant financial experience.

The Audit Committee assists the Board in discharging its responsibility with regard to financial reporting, external and internal audits and controls, including monitoring the financial reporting process, reviewing the Company's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and half-yearly reports remains with the Board.

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

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

The Committee also considers on an ongoing basis the independence of the external auditors and has established policies to consider the appropriateness or otherwise of appointing the external auditors to perform non-audit services. As detailed on page 29 the external auditors are KPMG, who have provided certain non-audit services to the Company, principally in respect of advice on taxation and corporate finance matters. The Committee is satisfied that such work was best undertaken by KPMG and their objectivity has not been impaired by reason of this further work. The Committee also reviewed and continues to oversee the whistleblowing arrangements which enable employees to raise concerns about improprieties in financial reporting and other matters on a confidential basis.

### Nomination Committee

The Company's Nomination Committee is comprised of three members, all of whom are independent Non-Executive Directors (namely Thomas McGrath, David Maloney and Peter Williams) and it met three times during the financial year. The Company considers that it complies with the Combined Code, which provides that a majority of the members of the Nomination

Committee should be independent non-executive directors. Due to the importance that the Directors play in the success of the Group, the Chairman is invited to attend meetings and does so except when his own position is being discussed.

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition of the Board. It is responsible for evaluating the balance of skills, knowledge and experience on the Board, the size, structure and composition of the Board, retirements and appointments of additional and replacement Directors and makes appropriate recommendations to the Board on such matters.

During the year, two additional Non-Executive Directors were appointed. An external search consultancy was utilised to identify suitable candidates who were considered together with individuals recommended by the existing Directors. The whole process was carried with a particular regard both to strengthening the Board's collective understanding of the UK film industry and on-line operations and also the benefits of diversity. Following interviews carried out by members of the Committee and the Chairman of the Company, the Committee recommended to the Board that Martina King and Rick Senat should be appointed.

#### Remuneration Committee

At the start of the year, the Company's Remuneration Committee comprised two Non-Executive Directors (namely David Maloney and Peter Williams). Martina King, another independent Non-Executive Director, was appointed as an additional member in July 2010. It met three times during the financial year. The Company considers that it complied with the Combined Code which provides that the Remuneration Committee of a smaller company which is below the FTSE 350 should consist of at least two members who are both independent non-executive directors.

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on

executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors and monitoring and approving the remuneration of senior management below Board level.

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

The Chief Executive Officer is consulted on the remuneration packages of the other senior executives and attends discussions by invitation except when his own position is being discussed. Given the essential part remuneration plays in the success of the Group, the Chairman is also invited to attend meetings of the Committee and does so except when his own remuneration is being considered. The Committee does not deal with the fees paid to the Non-Executive Directors. The report of the Remuneration Committee is set out on pages 36 to 40.

#### Re-election

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

Although not a FTSE 350 company, the Directors anticipate that, with effect from the AGM to be held in 2012, they will all voluntarily offer themselves for re-election each year in accordance with The UK Corporate Governance Code (which will apply to the Group for the financial year commencing 1 January 2011).

#### Attendance at Meetings

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

Number of meetings in year	Board (including strategy day)	Audit Committee	Remuneration Committee	Nomination Committee
	Attended	Attended	Attended	Attended
<b>Director</b>				
Anthony Bloom	7*	4†	3†	3†
Richard Jones	7	n/a	n/a	n/a
Martina King	3 <sup>§</sup>	n/a	1 <sup>§</sup>	n/a
David Maloney	7	5*	3	3
Thomas McGrath	6	n/a	n/a	3*
Alan Roux	7	n/a	n/a	n/a
Rick Senat	3 <sup>§</sup>	2 <sup>§</sup>	n/a	n/a
Matthew Tooth	6	n/a	n/a	n/a
Stephen Wiener	7	n/a	n/a	n/a
Peter Williams	7	5	3*	3

\* Chairman of Board/Committee.

† Anthony Bloom attended these meetings by invitation.

§ Martina King and Rick Senat were appointed as Directors on 18 July 2010. Between this date and 30 December 2010, there were three Board meetings, two Audit committee meetings and one Remuneration Committee meeting.

# Corporate Governance Statement continued

## Investor Relations

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

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

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

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

## Internal Controls

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

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

More generally the Directors are committed to implementing measures to ensure that there is an ongoing review of the effectiveness of the internal control system with procedures to capture and evaluate failings and weaknesses, and in the case of

those categorised by the Board as significant, that procedures exist to ensure that necessary action is taken to remedy the failings.

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

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

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

Under the Audit Committee's terms of reference, it is tasked with reviewing the Company's financial reporting and internal control procedures and to make recommendations to the Board in this area. Key elements of the Group's risk management and internal control framework during 2010 were:

- The day-to-day involvement of executive members of the Board in all aspects of the business and their attendance at regular meetings with senior management, at which operational and financial performance and operational matters are reviewed. Financial performance was monitored and action taken through regular reporting to the Executive Directors and monthly reporting to the Board against annual budgets approved by the Board.
- Small groups of members of the senior management team meeting to review current and future risks in their particular areas of responsibility and expertise and to confirm the current measures in place to mitigate those risks.
- An established organisational structure with clear lines of responsibility and reporting requirements. Capital investment and all revenue expenditure being regulated by a budgetary process and authorisation levels (manual and systems), with appraisals and post-investment and period end reviews. Policy manuals setting out agreed standards and control procedures which include human resources related policies, information technology and health and safety.
- An established internal audit function headed by an experienced internal auditor who had access to all areas of the cinema operations and prepared reports which were available to the Board and reported regularly to senior management and the Audit Committee.
- Reports from Grant Thornton following their reviews of specific areas of risk as part of their on-going assistance with the Internal Audit programme.
- An independent external consultant conducting annual health and safety audits and reporting to the Group Health and Safety Committee (comprising of members of the senior management team meeting on a quarterly basis) and the Audit Committee.
- The external auditors providing a supplementary, independent and autonomous perspective on those areas of the internal control system, which they assess in the course of their work. Their findings were reported to both the Audit Committee and the Board.

- 
- The Audit Committee reviewing the risk register, receiving reports on risk management and internal controls and monitoring the overall position and reviewing actions taken to address areas of weakness.
  - Each cinema having its own risk register prepared by undertaking an annual review of all risks affecting the cinema and detailing the control measures in place to mitigate those risks with key controls being reviewed by the internal audit function.
  - Business Continuity Plans for Head Office and each cinema being in place with components of the Head Office plan being reviewed and tested during the year.
  - A specialist company conducting quarterly penetration testing on the Group's IT networks.
  - A whistle-blowing policy being in place ensuring that members of staff who were concerned about impropriety, financial or otherwise, could raise such matters without fear of victimisation or reprisal.

#### **Accountability, Audit and Financial**

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

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

#### **Human Resources**

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

#### **Insurance**

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

By order of the Board

#### **Anthony Bloom**

Chairman  
10 March 2011

# Directors' Remuneration Report

## Introduction

I am pleased to present the Remuneration Committee's Report on Directors' remuneration for 2010 and the forthcoming financial year. 2010 was another successful year for Cineworld, with the Group delivering healthy growth in revenues and profits enabling a 5% increase in the full year dividend to be made and executive remuneration decisions were made in this context.

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

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

## Unaudited Information

### Remuneration Committee

The Company's Remuneration Committee currently comprises three Non-Executive Directors (namely Martina King, David Maloney and Peter Williams) who are all deemed to be independent. Martina King was appointed as an additional member of the Committee on 2 July 2010. The Chairman of the Remuneration Committee is Peter Williams and the Secretary of the Committee is the Company Secretary. The Committee met three times in the financial period. The Committee's terms of reference are available for inspection on the Company's website ([www.cineworldplc.com](http://www.cineworldplc.com)) or on request from the Company Secretary.

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

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

value of the performance related element of the Executive Directors' packages is around 55% at the target performance level. The arrangements are reviewed on a regular basis.

### Remuneration Package

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

### Annual Salary

Salaries are reviewed annually by the Remuneration Committee. The Board approves the overall budget for employee salary increases and the Committee agrees the specific increases for the SMT. For members of the SMT below Board level, the Committee receives a recommendation from the Chief Executive Officer which it reviews and approves as appropriate. In determining appropriate salary levels for each Executive Director, the Committee considers both the nature and the status of the Company's operations and the responsibilities, skills, experience and performance of the Executive Director. The Committee compares the Group's remuneration packages for its Executive Directors and employees with those for directors and employees of similar seniority in companies whose activities are comparable with the Group. It also takes into account the progress made by the Group, contractual considerations and salary increases across the rest of the Group (which for the year were generally in the range of 3% to 3.5%).

### Performance-Related Bonus

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

Details of bonuses paid to Executive Directors in the year to 30 December 2010 are included in the remuneration tables set out below. Bonuses are awarded wholly in cash.

Stephen Wiener is eligible for a bonus payable of up to 100% of salary on achievement by the Group of 95% to 120% of full year budgeted EBITDA. Richard Jones is eligible for a bonus payable of up to 95% of salary on achievement by the Group of 95% to 120% of full year budgeted EBITDA. Bonuses are not payable unless a threshold of 95% of full year budgeted EBITDA is achieved.

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

The PSP was implemented at IPO and the first grant of awards was made in March 2008 after the announcement of the Company's results for the financial year ended 27 December 2007. Further awards were made in March 2009 and March 2010 – in each case after the announcement of the Company's results for the preceding financial year. Only the Executive



Directors and members of the SMT, decided at the discretion of the Remuneration Committee, participated in each grant. Details of the awards to the Executive Directors are set out below. Non-Executive Directors, including the Chairman, are not eligible to participate in the PSP.

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

- 30% of the Awards will vest if the average annual growth in earnings per share ("EPS")\* (calculated by comparing the EPS for the last financial year prior to the date of grant and the EPS for the financial year ending three years later) is not less than 3.2%.
- 100% of the Awards will vest if the average annual growth in EPS (calculated by comparing the EPS for the last financial year prior to the date of grant and the EPS for the financial year ending three years later) is at least 9.2%.
- Where the average annual growth in EPS (calculated by comparing the EPS for the last financial year prior to the date of grant and the EPS for the financial year ending three years later) is between the two limits above, the Awards shall vest on a straight-line basis between 30% and 100%.

\* EPS for the 2008 grant is defined as the normalised undiluted earnings per share excluding any deferred tax charge relating to tax assets in existence on listing and exceptional items and for the 2009 and 2010 grants are defined as the adjusted pro-forma diluted earnings per share as calculated in Note 5 to the financial statements.

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

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

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

eligible participants. The first Sharesave grant made in 2007 did vest in the period and participants were able to exercise their options. Details of the interests of the Executive Directors in the Sharesave Scheme are set out below.

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

The CSOP was approved by shareholders at the Annual General Meeting ("AGM") in 2010 and the first grant of awards was made in July 2010. Only the Executive Directors and members of the SMT, decided at the discretion of the Remuneration Committee, participated in the grant which consisted solely of HM Revenue and Customs approved options. In 2010, participants in the PSP were offered the opportunity to swap part of their PSP award for a HM Revenue and Customs approved share option. Details of the awards to the Executive Directors under the CSOP are set out below which included identical performance conditions to the 2010 PSP awards. No unapproved share options were granted. Non-Executive Directors, including the Chairman, are not eligible to participate in the CSOP.

#### **Satisfaction of Share Options and Awards**

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

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

#### **Share Retention Policy**

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

#### **Pension Contributions**

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

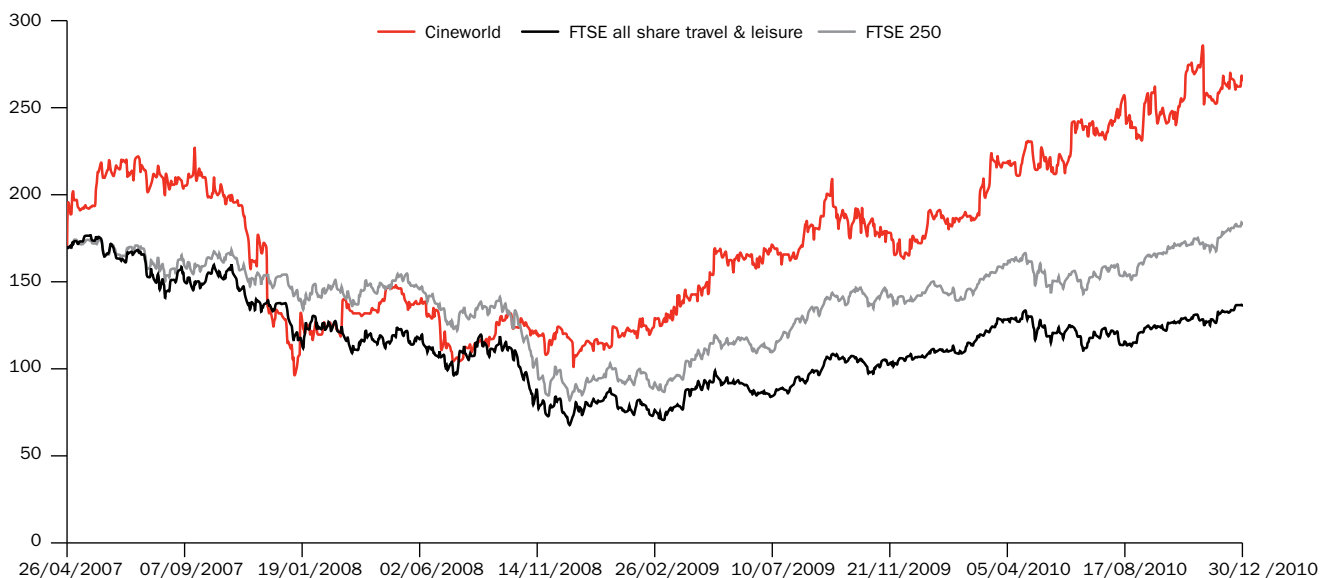
#### **Other Benefits**

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

# Directors' Remuneration Report continued

## Performance Graph

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



\* Rebased to 170p

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

The mid market closing price on 30 December 2010 was 216p and the range during the period 1 January 2010 to 30 December 2010 was 154.5p to 231.75p.

## Executive Directors' Contracts

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

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

Director	Date of contract	Notice period from company	Notice period from employee
Stephen Wiener	23 April 2007	12 months	12 months
Richard Jones	23 April 2007	12 months	6 months

Both Executive Directors are, under the terms of their service contracts, entitled to an annual review of their base salary and a minimum increase in line with the Retail Prices Index.

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

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

## Non-Executive Directors' Letters of Appointment

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

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

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

Their appointments were made as follows:

Director	Date of appointment	Notice period
Anthony Bloom	7 October 2004	1 month
Martina King	2 July 2010	1 month
David Maloney	22 May 2006	1 month
Thomas McGrath	16 May 2005	1 month
Rick Senat	2 July 2010	1 month
Matthew Tooth	24 August 2004	1 month
Peter Williams	22 May 2006	1 month

### Audited Information

#### Aggregated Directors' remuneration

The total amounts for Directors' remuneration were as follows:

#### Emoluments

##### (i) Executive

Name of Director	2010 Fees/ Basic salary £'000	2009 Fees/ Basic salary £'000	2010 Performance bonus £'000	2009 Performance bonus £'000	2010 Benefits £'000†	2009 Benefits £'000	2010 Total £'000	2009 Total £'000	2010 Company contributions to money purchase pension schemes £'000	2009 Company contributions to money purchase pension schemes £'000	2010 Total including contribution to money purchase pension scheme £'000	2009 Total including contribution to money purchase pension scheme £'000
Stephen Wiener	419*	400	343	341	31	37	793	778	84	80	877	858
Richard Jones	246*	235	189	189	16	18	451	442	49	47	500	489
	<b>665</b>	<b>635</b>	<b>532</b>	<b>530</b>	<b>47</b>	<b>55</b>	<b>1244</b>	<b>1220</b>	<b>133</b>	<b>127</b>	<b>1377</b>	<b>1347</b>

\* With effect from 1 July 2010, Stephen Wiener's and Richard Jones' basic salaries were both increased by 4.4%.

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

##### (ii) Non-Executive

Name of Director	2010 Fees/Basic salary £'000	2009 Fees/Basic salary £'000
Anthony Bloom	100	100
Lawrence Guffey*	–	30
Martina King†	19	–
David Maloney	51	48
Thomas McGrath	38	38
Alan Roux*	29	3
Rick Senat†	19	–
Matthew Tooth*	33	33
Peter Williams	51	48
	<b>340</b>	<b>300</b>

\* Lawrence Guffey, Alan Roux and Matthew Tooth were appointed by the Blackstone Group and their respective Directors' fees were payable to the Blackstone Group. Alan Roux was appointed a Director on 23 November 2009 in place of Lawrence Guffey. Following the sale by the Blackstone Group of its shareholding in the Company on 18 November 2010, Alan Roux stepped down from the Board. Matthew Tooth remained a Director in an independent capacity, although his Director's fees continue to be paid to the Blackstone Group. No compensation was paid in respect of Alan Roux's departure.

† Martina King and Rick Senat were appointed on 2 July 2010.

During the year, it was agreed that an additional fee of £5,000 p.a. would be paid to each of the Chairman of the Audit and Remuneration Committees with effect from 1 July 2010. Otherwise there was no increase in the fees paid to the Chairman or the Non-Executive Directors. The basic fee for a Non-Executive Director was £33,000 p.a. An additional fee of £5,000 p.a. is paid for being a member of a particular committee. The Non-Executive Directors do not receive any share options, bonuses or other performance-related payments nor do they receive any pension entitlement or other benefits.

# Directors' Remuneration Report continued

## Directors' Share and Share Option Scheme Interests

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

### (a) Cineworld Group Sharesave Scheme

Name of Director	At 31 Dec 2009	Granted during year	Exercised during year	Lapsed during year	At 30 Dec 2010	Exercise price	Earliest date of exercise	Expiry date
Stephen Wiener	10,322	–	–	–	<b>10,322</b>	£0.93	01/12/11	01/05/12
Richard Jones	10,322	–	–	–	<b>10,322</b>	£0.93	01/12/11	01/05/12

### (b) Cineworld Group Performance Share Plan

Name of Director	At 31 Dec 2009	Awarded during year	Vested during year	Lapsed during year	At 30 Dec 2010	Exercise price	Market value at date of vesting	Vesting date or exercise period <sup>¶</sup>
Stephen Wiener	142,308*	–	–	–	<b>142,308</b>	£Nil	–	20/03/11
	152,343 <sup>†</sup>	–	–	–	<b>152,343</b>	£Nil	–	26/03/12
		109,774 <sup>§</sup>	–	–	<b>109,774</b>	£Nil	–	30/03/13 – 30/09/13
Richard Jones	82,692*	–	–	–	<b>82,692</b>	£Nil	–	20/03/11
	89,843 <sup>†</sup>	–	–	–	<b>89,843</b>	£Nil	–	26/03/12
		64,058 <sup>§</sup>	–	–	<b>64,058</b>	£Nil	–	30/03/13 – 30/09/13

\* Mid-market price of a Cineworld Group plc share the day before grant was £1.30.

† Mid-market price of a Cineworld Group plc share the day before grant was £1.28.

§ Mid-market price of a Cineworld Group plc share the day before grant was £1.85.

¶ Subject to satisfaction of the relevant performance conditions (details of which are set on page 37). Awards made during the year were granted as nil cost options rather than as conditional awards of shares as in the previous two years.

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

Name of Director	At 31 Dec 2009	Granted during year	Exercised during year	Lapsed during year	At 30 Dec 2010	Exercise price	Earliest date of exercise <sup>†</sup>	Expiry date
Stephen Wiener	0	5,050*	–	–	<b>5,050</b>	£1.98	01/07/13	30/06/20
Richard Jones	0	5,050*	–	–	<b>5,050</b>	£1.98	01/07/13	30/06/20

\* HM Revenue and Customs approved share options

† Subject to satisfaction of the relevant performance conditions (details of which are set on page 37).

By order of the Board

### Peter Williams

Chairman of the Remuneration Committee

10 March 2011

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# Statement of Directors' Responsibilities

## in respect of the Annual Report and the Financial Statements

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

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

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

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

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

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

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

The Directors confirm that to the best of our knowledge:

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

On behalf of the Board

**Richard Jones**  
Chief Financial Officer  
10 March 2011



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# Independent Auditors' Report

## to the Members of Cineworld Group plc

We have audited the financial statements of Cineworld Group plc for the year ended 30 December 2010 set out on pages 43 to 83. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

### Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 41, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/UKP](http://www.frc.org.uk/apb/scope/UKP).

### Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 December 2010 and of the Group's and the parent company's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the 52 week period then ended for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 31 to 35 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 29 and 30, in relation to going concern;
- the part of the Corporate Governance Statement on pages 31 to 35 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

### Mark Summerfield (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

### Chartered Accountants

15 Canada Square  
London  
E14 5GL  
10 March 2011

# Consolidated Statement of Comprehensive Income

## for the Period Ended 30 December 2010

	Note	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
<b>Revenue</b>	2	<b>342.8</b>	333.4
Cost of sales		<b>(259.7)</b>	(253.8)
<b>Gross profit</b>		<b>83.1</b>	79.6
Other operating income	3	<b>0.6</b>	0.7
Administrative expenses		<b>(46.6)</b>	(40.7)
<b>Operating profit</b>	4	<b>37.1</b>	39.6
Analysed between:			
Operating profit before depreciation, impairments, reversals of impairments and amortisation, onerous lease and other non-recurring or non-cash property charges, transaction and reorganisation costs		<b>59.0</b>	55.7
– Depreciation and amortisation	4	<b>(17.2)</b>	(15.3)
– Onerous leases and other non-recurring or non-cash property charges	4	<b>(1.3)</b>	(0.4)
– Impairments and reversals of impairments	4	<b>(3.2)</b>	–
– Transaction and reorganisation costs	4	<b>(0.2)</b>	(0.4)
Finance income	7	<b>1.6</b>	1.2
Finance expenses	7	<b>(8.2)</b>	(9.9)
<b>Net finance costs</b>		<b>(6.6)</b>	(8.7)
Share of loss of jointly controlled entities using equity accounting method, net of tax		<b>(0.1)</b>	(0.1)
<b>Profit on ordinary activities before tax</b>		<b>30.4</b>	30.8
Tax charge on profit on ordinary activities	8	<b>(9.4)</b>	(10.4)
<b>Profit for the period attributable to equity holders of the Company</b>		<b>21.0</b>	20.4
<b>Other comprehensive income</b>			
Movement in fair value of cash flow hedge		<b>1.1</b>	0.3
Foreign exchange translation gain/(loss)		<b>0.2</b>	(0.5)
Actuarial (losses)/gains on defined benefit pension schemes		<b>(0.7)</b>	0.8
Income tax on other comprehensive income		<b>(0.1)</b>	(0.3)
<b>Other comprehensive income for the period, net of income tax</b>		<b>0.5</b>	0.3
<b>Total comprehensive income for the period attributable to equity holders of the Company</b>		<b>21.5</b>	20.7
Basic earnings per share	5	<b>14.8p</b>	14.4p
Diluted earnings per share	5	<b>14.7p</b>	14.4p

The Notes on pages 47 to 77 are an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

## at 30 December 2010

	Note	30 December 2010		31 December 2009	
		£m	£m	£m	£m
<b>Non-current assets</b>					
Property, plant and equipment	10	114.2		114.6	
Goodwill	11	217.1		216.1	
Intangible assets	11	0.4		0.6	
Investments in equity-accounted investee	12	0.8		0.9	
Other receivables	15	1.4		1.4	
Deferred tax assets	13	14.9		16.6	
<b>Total non-current assets</b>		<b>348.8</b>		<b>350.2</b>	
<b>Current assets</b>					
Inventories	14	2.2		1.9	
Trade and other receivables	15	23.5		19.9	
Cash and cash equivalents		10.6		16.9	
<b>Total current assets</b>		<b>36.3</b>		<b>38.7</b>	
<b>Total assets</b>		<b>385.1</b>		<b>388.9</b>	
<b>Current liabilities</b>					
Interest-bearing loans, borrowings and other financial liabilities	16	(11.7)		(11.9)	
Trade and other payables	17	(47.5)		(46.5)	
Current taxes payable		(7.9)		(8.9)	
Provisions	19	(2.3)		(1.2)	
<b>Total current liabilities</b>		<b>(69.4)</b>		<b>(68.5)</b>	
<b>Non-current liabilities</b>					
Interest-bearing loans, borrowings and other financial liabilities	16	(99.7)		(109.3)	
Other payables	17	(52.5)		(53.5)	
Employee benefits	18	–		(0.7)	
Provisions	19	(9.6)		(10.6)	
Deferred tax liabilities	13	(1.9)		(1.8)	
<b>Total non-current liabilities</b>		<b>(163.7)</b>		<b>(175.9)</b>	
<b>Total liabilities</b>		<b>(233.1)</b>		<b>(244.4)</b>	
<b>Net assets</b>		<b>152.0</b>		<b>144.5</b>	
<b>Equity attributable to equity holders of the Company</b>					
Share capital	20	1.4		1.4	
Share premium		171.4		171.4	
Translation reserves	20	1.8		1.6	
Hedging reserves	20	(2.8)		(3.9)	
Retained deficit		(19.8)		(26.0)	
<b>Total equity</b>		<b>152.0</b>		<b>144.5</b>	

These financial statements were approved by the Board of Directors on 10 March 2011 and were signed on its behalf by:

**Stephen Wiener**  
Director

**Richard Jones**  
Director

# Consolidated Statement of Changes in Equity

## for the Period Ended 30 December 2010

	Issued capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained deficit £m	Total £m
<b>Balance at 25 December 2008</b>	<b>1.4</b>	<b>171.4</b>	<b>2.1</b>	<b>(4.2)</b>	<b>(33.8)</b>	<b>136.9</b>
Profit for the period	-	-	-	-	20.4	20.4
<b>Other comprehensive income</b>						
Movement in fair value of cash-flow hedge	-	-	-	0.3	-	0.3
Retranslation of foreign currency denominated subsidiaries	-	-	(0.5)	-	-	(0.5)
Actuarial gain on defined benefit scheme	-	-	-	-	0.8	0.8
Tax recognised on income and expenses recognised directly in equity	-	-	-	-	(0.3)	(0.3)
<b>Contributions by and distributions to owners</b>						
Dividends paid in period	-	-	-	-	(13.5)	(13.5)
Movements due to share-based compensation	-	-	-	-	0.4	0.4
<b>Balance at 31 December 2009</b>	<b>1.4</b>	<b>171.4</b>	<b>1.6</b>	<b>(3.9)</b>	<b>(26.0)</b>	<b>144.5</b>
Profit for the period	-	-	-	-	21.0	21.0
<b>Other comprehensive income</b>						
Movement in fair value of cash-flow hedge	-	-	-	1.1	-	1.1
Retranslation of foreign currency denominated subsidiaries	-	-	0.2	-	-	0.2
Actuarial loss on defined benefit scheme	-	-	-	-	(0.7)	(0.7)
Tax recognised on income and expenses recognised directly in equity	-	-	-	-	(0.1)	(0.1)
<b>Contributions by and distributions to owners</b>						
Dividends paid in period	-	-	-	-	(14.5)	(14.5)
Movements due to share-based compensation	-	-	-	-	0.5	0.5
<b>Balance at 30 December 2010</b>	<b>1.4</b>	<b>171.4</b>	<b>1.8</b>	<b>(2.8)</b>	<b>(19.8)</b>	<b>152.0</b>

# Consolidated Statement of Cash Flows

## for the Period Ended 30 December 2010

	Note	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
<b>Cash flow from operating activities</b>			
Profit for the period		21.0	20.4
Adjustments for:			
Financial income	7	(1.6)	(1.2)
Financial expense	7	8.2	9.9
Taxation	8	9.4	10.4
Share of loss of equity-accounted investee		0.1	0.1
<b>Operating profit</b>		<b>37.1</b>	39.6
Depreciation and amortisation	4	17.2	15.3
Non-cash property charges	4	1.3	0.4
Impairments and reversals of impairments		3.2	–
Surplus of pension contributions over current service cost	18	(1.6)	(1.6)
(Increase)/decrease in trade and other receivables		(3.5)	1.5
Increase in inventories		(0.3)	(0.2)
(Decrease)/increase in trade and other payables		(0.5)	2.1
Decrease in provisions and employee benefit obligations		(2.2)	(2.5)
<b>Cash generated from operations</b>		<b>50.7</b>	54.6
Tax paid		(8.7)	(4.8)
<b>Net cash flows from operating activities</b>		<b>42.0</b>	49.8
<b>Cash flows from investing activities</b>			
Interest received		0.1	0.1
Acquisition of property, plant and equipment		(20.3)	(15.6)
<b>Net cash flows from investing activities</b>		<b>(20.2)</b>	(15.5)
<b>Cash flows from financing activities</b>			
Dividends paid to shareholders		(14.5)	(13.5)
Interest paid		(4.0)	(7.2)
Repayment of bank loans		(9.0)	(9.0)
Payment of finance lease liabilities		(0.6)	(0.5)
<b>Net cash from financing activities</b>		<b>(28.1)</b>	(30.2)
Net increase in cash and cash equivalents		(6.3)	4.1
Effect of exchange rate fluctuations on cash held		–	–
Cash and cash equivalents at start of period		16.9	12.8
<b>Cash and cash equivalents at end of period</b>		<b>10.6</b>	16.9



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# Notes to the Consolidated Financial Statements

## (Forming Part of the Financial Statements)

### 1 Accounting Policies

#### Basis of Preparation

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

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

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 78 to 83.

The accounting policies set out below have been applied consistently to all periods presented in these Group financial statements, except as described on page 53.

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

Information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Chief Executive and Chief Financial Officer's Review and the Risks and Uncertainties section on pages 8 to 18. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive and Chief Financial Officer's Review on pages 8 to 15. In addition Note 21 to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

As highlighted in Note 16 to the financial statements, the Group meets its day to day working capital requirements through its bank facilities which consist of a £102m term loan plus £30m revolver which matures in 2012. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance in the foreseeable future.

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

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

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

#### Measurement Convention

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

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

#### Basis of Consolidation

##### Subsidiaries

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

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

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

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# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### 1 Accounting Policies continued

#### Transactions Eliminated on Consolidation

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

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

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

- EBITDA
- Adjusted earnings
- Net debt

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

EBITDA comprises of earnings before interest, tax, depreciation and amortisation, onerous lease and other non-recurring or non-cash property charges, transaction and reorganisation costs and profit on disposal of cinema sites.

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

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

#### Foreign Currency

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

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

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

#### Derivative Financial Instruments and Hedging

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

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

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

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

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

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

#### Non-Derivative Financial Instruments

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

#### Trade and Other Receivables

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

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## 1 Accounting Policies continued

### *Cash and cash equivalents*

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

### *Trade and Other Payables*

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

### *Interest-Bearing Borrowings*

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

### *Property, Plant and Equipment*

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

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

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

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

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

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

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

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

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

### *Business Combinations*

In 2009 the Group early adopted IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and had a negative impact on basic and diluted earnings per share of 0.1p in the current period as a result of being required to record transaction costs in the income statement. It has had no effect on adjusted earnings per share or adjusted pro-forma earnings per share, as excluding the effect of this transaction forms one of the adjustments.

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

There were no acquisitions in the prior period.

### *Intangible Assets and Goodwill*

All business combinations are accounted for by applying the acquisition method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since incorporation, goodwill represents the difference between the cost of the acquisition and the Group's interest in the fair value of the net identifiable assets acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

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# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### **1 Accounting Policies** continued

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

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

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

- Brands – 10 years

### **Inventories**

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

### **Impairment**

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

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

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

### **Calculation of Recoverable Amount**

The recoverable amount is the greater of the asset’s fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### **Reversals of Impairment**

An impairment loss in respect of goodwill is not reversed.

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

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

### **Employee Benefits**

#### **Defined Contribution Pension Plans**

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

#### **Defined Benefit Pension Plans**

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

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

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## 1 Accounting Policies continued

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

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

### **Share-Based Payment Transactions**

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date using the Black-Scholes Model and spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

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

### **Provisions**

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

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

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

### **Revenue**

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

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

### **Expenses**

#### **Virtual Print Fees**

A Virtual Print Fee represents a discount from the cost Cineworld pays for film rental and reflects the cost saving to the studios of the move to digital. They are receivable the first time a film is played digital on a screen rather than 35mm film.

Virtual Print Fees ("VPF") are recognised on the date of the showing of the film it relates to and are included in cost of sales as a reduction of the film hire costs.

#### **Operating Lease Payments**

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

#### **Finance Lease Payments**

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



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# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### 1 Accounting Policies continued

#### **Net Financing Costs**

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

#### **Sale and Leaseback**

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

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

#### **Taxation**

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

#### **Operating Segments**

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

#### **Significant Accounting Judgements and Estimates**

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

#### **Estimates**

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

#### **Onerous Leases**

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

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

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## **1 Accounting Policies** continued

### ***Impairment of Goodwill***

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

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

### ***Impairment of Tangible Fixed Assets***

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

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

### ***Employee Post Retirement Benefit Obligations***

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

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

### ***Deferred Tax Assets***

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

### ***Judgements***

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

### ***Finance and Operating Leases***

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

### ***Hedging Arrangements***

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

### ***New standards and Interpretations***

With effect from 1 January 2010 the Group adopted the following pronouncements:

IFRS 8 (Amendment) "Operating Segments – Disclosure about information about segment assets"; IFRS 8 was amended to state that segment information for total assets is only required if such information is regularly reported to the chief operating decision-maker ("CoDM"). There has been no effect on the consolidated financial statements as the Group has only one operating segment.

IAS 7 (Amendment) "Statement of Cash flows – Classification of expenditures on unrecognised assets"; IAS 7 was amended to state explicitly that only expenditure that results initially in the recognition of an asset may be classified as a cash flow from investing activities. The effect of the adoption of this standard is that transaction expenditures have now been classified differently in the statement of cash flows.

IAS 36 (Amendment) "Impairments of Assets – Unit of accounting for goodwill impairment test"; the standards was amended to confirm that the largest unit to which goodwill can be allocated is the operating segment level, as defined in IFRS 8, before applying the aggregation criteria. The Group has reconsidered the allocation of goodwill in the current year (see Note 11).

# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### 1 Accounting Policies continued

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

### 2 Operating Segments

Determination and presentation of operating segments:

Further to the adoption of IFRS 8, the Group has determined that it has one operating segment and therefore one reportable segment being cinema operations. All the disclosable operating segment information required by IFRS8 can be found in the primary statements.

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

Entity Wide Disclosures:

	52 week period ended 30 December 2010 Total £m	53 week period ended 31 December 2009 Total £m
Revenue by product and service provided		
Box office	235.8	230.9
Retail	81.6	84.4
Other	25.4	18.1
<b>Total revenue</b>	<b>342.8</b>	<b>333.4</b>

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

### 3 Other Operating Income

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
Rental income	0.6	0.7
<b>Total</b>	<b>0.6</b>	<b>0.7</b>

### 4 Operating Profit

Included in operating profit for the period are the following:

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
Depreciation	17.0*	15.2*
Impairments	4.5*	–
Reversals of impairments	(1.3)*	–
Amortisation of intangibles (Note 11)	0.2*	0.1*
Onerous lease and other non-recurring or non-cash property charges	1.3†	0.4†
Transaction and reorganisation costs	0.2*	0.4*
Hire of other assets – operating leases	46.5§	46.0§

\* Included in administrative expenses.

† £0.8m (2009: £nil) is included in administrative costs. The balance is included in cost of sales.

§ £0.9m (2009: £1.0m) is included in administrative costs. The balance is included in cost of sales.

See Note 10 for details of impairments and impairment reversals.

In 2010 there were dilapidations charges of £0.8m (2009: £nil), a net £nil charge on onerous leases following changes in trading assumptions (2009: credit of £0.5m) and non-cash property charges of £0.5m (2009: £0.9m).

#### 4 Operating Profit continued

In 2010, transaction and reorganisation costs relate to professional fees incurred in connection with the O2 acquisition. In 2009 they relate to professional fees incurred in connection with an aborted acquisition.

The total remuneration of the Group auditor's, KPMG Audit Plc, and its affiliates for the services to the Group is analysed below.

	52 week period ended 30 December 2010 £000	53 week period ended 31 December 2009 £000
Auditors' remuneration:		
Group – audit	196	190
Company – audit	5	5
Amounts received by auditors and their associates in respect of:		
– Audit of financial statements pursuant to legislation	201	195
– Audit related regulatory reporting	41	45
	242	240
– Other services relating to taxation	226	197
– Valuation and actuarial services	34	20
– Services relating to corporate finance transactions entered into by or on behalf of the Company or the Group	86	49
– Other	7	–

#### 5 Earnings Per Share

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

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

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
Earnings attributable to ordinary shareholders	21.0	20.4
Adjustments :		
Amortisation of intangible assets	0.2	0.1
Share-based payments	0.5	0.4
Transaction and reorganisation costs	0.2	0.4
Impairments and reversals of impairments	3.2	–
Impact of straight lining of operating leases	0.5	0.9
Dilapidations costs	0.8	–
Adjusted earnings	(52 weeks) 26.4	(53 weeks) 22.2
Add back tax charge	9.4	10.4
Adjusted pro-forma profit before tax	(52 weeks) 35.8	(53 weeks) 32.6
Less estimated impact of 53rd week in period	–	(0.6)
Less tax at statutory rate (28%)	(10.0)	(9.0)
Adjusted pro-forma profit after tax	(52 weeks) 25.8	(52 weeks) 23.0

# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### 5 Earnings Per Share continued

	52 week period ended 30 December 2010 Number of shares (m)	53 week period ended 31 December 2009 Number of shares (m)
Weighted average number of shares in issue	141.7	141.7
Basic and adjusted earnings per share denominator	141.7	141.7
Dilutive options	1.1	–
Diluted earnings per share denominator	142.8	141.7
Shares in issue at period end	141.7	141.7
	<b>Pence</b>	<b>Pence</b>
Basic earnings per share	<b>(52 weeks) 14.8</b>	(53 weeks) 14.4
Diluted earnings per share	<b>(52 weeks) 14.7</b>	(53 weeks) 14.4
Adjusted pro-forma basic earnings per share	<b>(52 weeks) 18.2</b>	(52 weeks) 16.2
Adjusted pro-forma diluted earnings per share	<b>(52 weeks) 18.1</b>	(52 weeks) 16.2

### 6 Staff Numbers and Costs

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

	Number of staff	
	2010	2009
Head office	138	131
Cinemas	4,487	4,350
	<b>4,625</b>	4,481

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

The aggregate payroll costs of these persons were as follows:

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
Wages and salaries	48.1	46.8
Social security costs	3.3	3.1
Other pension costs – Defined contribution	0.4	0.4
Share-based payments (see Note 18)	0.5	0.4
	<b>52.3</b>	50.7

See pages 36 to 40 for Directors' remuneration.



## 7 Finance Income and Expense

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
Interest income	0.3	0.2
Expected return on defined benefit pension plan assets (Note 18)	1.3	1.0
<b>Finance income</b>	<b>1.6</b>	1.2
Interest expense on bank loans and overdrafts	4.1	5.3
Amortisation of financing costs	0.4	0.3
Unwind of discount on onerous lease provision	1.0	1.1
Finance cost for defined benefit pension scheme (Note 18)	1.5	1.5
Interest charge as a result of change in discount rate relating to onerous lease provisions	0.8	1.2
Other financial costs	0.4	0.5
<b>Finance expense</b>	<b>8.2</b>	9.9
Net finance costs	6.6	8.7
Recognised within other comprehensive income:		
	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
Movement in fair value of interest rate swap	1.1	0.3
Foreign exchange translation gain/(loss)	0.2	(0.5)
<b>Finance income</b>	<b>1.3</b>	(0.2)

No borrowing costs were capitalised in the 52 week period ending 30 December 2010 (2009: £0.1m) since there were no significant assets under construction during the period, see Note 10.

## 8 Taxation

### Recognised in the Income Statement

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
<b>Current tax expense</b>		
Current year	8.3	7.1
Adjustments in respect of prior years	(0.6)	1.7
<b>Total current tax expense</b>	<b>7.7</b>	8.8
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	1.7	1.6
<b>Total tax charge in income statement</b>	<b>9.4</b>	10.4

# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### 8 Taxation continued

#### Reconciliation of Effective Tax Rate

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
<b>Profit before tax</b>	<b>30.4</b>	30.8
Tax using the UK corporation tax rate of 28% (2009: 28%)	<b>8.5</b>	8.6
Differences in overseas tax rates	<b>(0.1)</b>	(0.2)
Accelerated capital allowances in excess of depreciation	<b>1.1</b>	0.3
Adjustments in respect of prior years	<b>(0.6)</b>	1.7
Effect of change in statutory rate to 27% on deferred tax	<b>0.5</b>	–
<b>Total tax charge in income statement</b>	<b>9.4</b>	10.4

During the period there was a deferred tax charge of £0.1m (2009: £0.3m) recognised directly in equity in connection with the actuarial loss on the defined benefit scheme and the decrease in the fair value of the cash flow hedge on part of the Group's bank loans, together with the impact of those items of the change in statutory rate; see Note 13.

#### Factors that may affect future tax charges

As at 30 December 2010 the Group had potential tax assets relating to the following:

- other non-trading losses of approximately £2.6m (2009: £2.6m)
- capital losses of approximately £7.6m (2009: £7.6m)

A deferred tax asset has not been recognised in respect of non-trading and capital losses carried forward as it is unclear whether non-trading income or capital gains against which the losses may be offset will arise in the Group for the foreseeable future. The net tax benefit of utilising any of the above losses is expected to amount to approximately 27% of the losses utilised.

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

The government has announced further corporation tax deductions in 2012–2015 declining in 1% increments to 24%.

### 9. Purchase of Trade and Assets

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

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

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

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

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

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

## 10 Property, Plant and Equipment

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Assets in the course of construction £m	Total £m
<b>Cost</b>					
<b>Balance at 25 December 2008</b>	83.3	33.6	42.0	0.3	159.2
Additions	0.8	4.9	7.5	4.3	17.5
Disposals	–	(0.2)	(2.0)	–	(2.2)
Transfers	4.6	–	–	(4.6)	–
Effects of movement in foreign exchange	(0.2)	(0.1)	(0.7)	–	(1.0)
<b>Balance at 31 December 2009</b>	88.5	38.2	46.8	–	173.5
Additions	2.1	10.6	7.3	–	20.0
Disposals	–	(2.6)	(5.0)	–	(7.6)
Transfers	–	–	–	–	–
Effects of movement in foreign exchange	(0.2)	(0.1)	(0.5)	–	(0.8)
<b>Balance at 30 December 2010</b>	<b>90.4</b>	<b>46.1</b>	<b>48.6</b>	<b>–</b>	<b>185.1</b>
<b>Accumulated depreciation and impairment</b>					
<b>Balance at 25 December 2008</b>	8.9	13.2	24.5	–	46.6
Charge for the period	4.8	4.7	5.7	–	15.2
Disposals	–	(0.2)	(2.0)	–	(2.2)
Effects of movement in foreign exchange	(0.1)	(0.1)	(0.5)	–	(0.7)
<b>Balance at 31 December 2009</b>	13.6	17.6	27.7	–	58.9
Charge for the period	5.0	5.8	6.2	–	17.0
Disposals	–	(2.6)	(5.0)	–	(7.6)
Effects of movement in foreign exchange	(0.1)	(0.1)	(0.4)	–	(0.6)
Impairments	3.7	0.6	0.2	–	4.5
Reversal of impairments	(1.3)	–	–	–	(1.3)
<b>Balance at 30 December 2010</b>	<b>20.9</b>	<b>21.3</b>	<b>28.7</b>	<b>–</b>	<b>70.9</b>
<b>Net book value</b>					
At 25 December 2008	74.4	20.4	17.5	0.3	112.6
At 31 December 2009	74.9	20.6	19.1	–	114.6
<b>At 30 December 2010</b>	<b>69.5</b>	<b>24.8</b>	<b>19.9</b>	<b>–</b>	<b>114.2</b>

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

Of the £20m of additions during the year, £10.5m relates to the acquisition and installation of digital projection equipment.

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

	30 December 2010 £m	31 December 2009 £m
<b>The net book value of assets held under finance leases comprised:</b>		
Opening net book value	5.1	5.4
Depreciation charge	(0.2)	(0.3)
<b>Closing net book value</b>	<b>4.9</b>	<b>5.1</b>

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

No interest (2009: £0.1m) has been capitalised during the period because only a minimal amount of work relating to the construction of a new site took place in the period.

# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### 10 Property, Plant and Equipment continued

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

#### Impairment

The Group considers each Cinema site to be a cash generating unit ("CGU") and each CGU is reviewed annually for indicators of impairment. In assessing whether an asset has been impaired, the carrying amount of the CGU is compared to its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. In the absence of any information about the fair value of a CGU, the recoverable amount is deemed to be its value in use. The Group estimates value in use using a discounted cash flow model, which applies a pre-tax discount rate of 9.5% (2009: 10.1%). The future cash flows are based on assumptions from the business plans and cover a five year period. Cash flows beyond this period are extrapolated using the assumptions used in the impairment model (see Note 11). The £4.5m impairment loss was caused by trading not reaching expectations for the foreseeable future in relation to two cinema sites.

#### Impairment Reversals

Following an improvement in trading performance and an increase in the estimated future cash flows of previously impaired sites, reversals of £1.3m have been recognised at three sites.

#### Sensitivity to Changes in Assumptions

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

	£m
Impairment if business plan growth rates were reduced by 1% for first five years	4.8
Impairment if discount rate was increased by 1%	4.6

### 11 Intangible Assets

	Goodwill £m	Brand £m	Total £m
<b>Cost</b>			
Balance at 25 December 2008	223.8	1.2	225.0
Balance at 31 December 2009	223.8	1.2	225.0
Additions	1.0	–	1.0
<b>Balance at 30 December 2010</b>	<b>224.8</b>	<b>1.2</b>	<b>226.0</b>
<b>Accumulated amortisation and impairment</b>			
Balance at 25 December 2008	7.7	0.5	8.2
Amortisation	–	0.1	0.1
Balance at 31 December 2009	7.7	0.6	8.3
Amortisation	–	0.2	0.2
<b>Balance at 30 December 2010</b>	<b>7.7</b>	<b>0.8</b>	<b>8.5</b>
Net book value			
At 25 December 2008	216.1	0.7	216.8
At 31 December 2009	216.1	0.6	216.7
<b>At 30 December 2010</b>	<b>217.1</b>	<b>0.4</b>	<b>217.5</b>

#### Impairment Testing

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

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

## 11 Intangible Assets continued

The key assumptions behind the impairment review are as follows:

2011 forecast earnings before interest, tax, depreciation, and amortisation ("EBITDA") was used as the basis of the future cash flow calculation. This is adjusted to add back rent (EBITDAR) and essential capex on existing sites. In line with long-term industry growth rates, EBITDAR is assumed to grow at 3% per annum for the first five years. Thereafter for the purposes of the annual impairment review, it is assumed that the growth rate will decline over the remaining 15 years of cash flows, and EBITDA will decline over the final five years.

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

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

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

### Amortisation Charge

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

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
Administrative expenses	0.2	0.1

## 12 Investment in Equity Accounted Investee

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

	Country of Incorporation	Class of shares held	Ownership
Digital Cinema Media Limited	England and Wales	Ordinary	50%

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

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

	30 December 2010 £m	31 December 2009 £m
Cost	0.9	0.9
Share of post acquisition reserves	–	0.1
	0.9	1.0
Share of post tax loss	(0.1)	(0.1)
Carrying value	0.8	0.9



# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### 12 Investment in Equity Accounted Investee continued

Summary aggregated financial information on jointly controlled entities – 100%:

	30 December 2010 £m	31 December 2009 £m
Current assets	<b>13.5</b>	14.7
Non-current assets	<b>1.8</b>	1.8
Current liabilities	<b>(13.2)</b>	(10.5)
Non-current liabilities	<b>(2.3)</b>	(6.0)
Net (liabilities)/assets	<b>(0.2)</b>	–
Income	<b>44.5</b>	41.9
Expenses	<b>(44.7)</b>	(42.1)
Net loss	<b>(0.2)</b>	(0.2)

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

### 13 Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	30 December 2010 £m	31 December 2009 £m	30 December 2010 £m	31 December 2009 £m	30 December 2010 £m	31 December 2009 £m
Property, plant and equipment	<b>3.9</b>	5.7	<b>(2.5)</b>	(3.1)	<b>1.4</b>	2.6
Intangible assets	–	–	<b>(0.1)</b>	(0.2)	<b>(0.1)</b>	(0.2)
Employee benefits	<b>0.3</b>	0.4	–	–	<b>0.3</b>	0.4
Reverse premiums	<b>2.8</b>	2.9	–	–	<b>2.8</b>	2.9
Effect of straight lining operating lease accruals	<b>7.9</b>	8.1	–	–	<b>7.9</b>	8.1
Interest rate swap	<b>0.7</b>	1.0	–	–	<b>0.7</b>	1.0
Tax assets/(liabilities)	<b>15.6</b>	18.1	<b>(2.6)</b>	(3.3)	<b>13.0</b>	14.8
Set off tax	<b>(0.7)</b>	(1.5)	<b>0.7</b>	1.5	–	–
<b>Net tax assets/(liabilities)</b>	<b>14.9</b>	16.6	<b>(1.9)</b>	(1.8)	<b>13.0</b>	14.8

See Note 8 for details of unrecognised tax assets.

Deferred taxation provided for in the financial statements at the period end represents provision at 27% (2009: 28%) on the above items. The effect of the change in statutory rate from 28% to 27% resulted in a £0.5m charge recognised in income. In line with government announcements (see Note 8), a further reduction in the net deferred asset is expected.

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

### 13 Deferred Tax Assets and Liabilities continued

Deferred tax assets and liabilities are attributable to the following:

	31 December 2009 £m	Recognised in income £m	Recognised in equity £m	30 December 2010 £m
Property, plant and equipment	2.6	(1.2)	–	<b>1.4</b>
Intangible assets	(0.2)	0.1	–	<b>(0.1)</b>
Employee benefits	0.4	(0.3)	0.2	<b>0.3</b>
Reverse premiums	2.9	(0.1)	–	<b>2.8</b>
Effect of straight lining operating lease accruals	8.1	(0.2)	–	<b>7.9</b>
Interest rate swap	1.0	–	(0.3)	<b>0.7</b>
<b>Tax assets/(liabilities)</b>	<b>14.8</b>	<b>(1.7)</b>	<b>(0.1)</b>	<b>13.0</b>

	25 December 2008 £m	Recognised in income £m	Recognised in equity £m	31 December 2009 £m
Property, plant and equipment	4.0	(1.4)	–	2.6
Intangible assets	(0.2)	–	–	(0.2)
Employee benefits	0.9	(0.3)	(0.2)	0.4
Reverse premiums	3.1	(0.2)	–	2.9
Effect of straight lining operating lease accruals	7.8	0.3	–	8.1
Interest rate swap	1.1	–	(0.1)	1.0
<b>Tax assets/(liabilities)</b>	<b>16.7</b>	<b>(1.6)</b>	<b>(0.3)</b>	<b>14.8</b>

### 14 Inventories

	30 December 2010 £m	31 December 2009 £m
Goods for resale	<b>2.2</b>	1.9
	<b>2.2</b>	1.9

Goods for resale recognised in cost of sales in the period amounted to £19.1m (2009: £17.0m).

### 15 Trade and Other Receivables

	30 December 2010 £m	31 December 2009 £m
Current		
Trade receivables	<b>2.4</b>	1.2
Other receivables	<b>1.2</b>	0.3
Prepayments and accrued income	<b>19.9</b>	18.4
	<b>23.5</b>	19.9
Non-current		
Land lease premiums	<b>0.9</b>	0.9
Loan to jointly controlled entity	<b>0.5</b>	0.5
	<b>1.4</b>	1.4

# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

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

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

	30 December 2010 £m	31 December 2009 £m
<b>Non-current liabilities</b>		
Interest rate swaps	0.5	1.3
Unsecured bank loan, less issue costs of debt to be amortised	93.0	101.7
Liabilities under finance leases	6.2	6.3
	<b>99.7</b>	109.3
<b>Current liabilities</b>		
Interest rate swaps	2.3	2.6
Unsecured bank loans, less issue costs of debt to be amortised	8.8	8.7
Liabilities under finance leases	0.6	0.6
	<b>11.7</b>	11.9

The terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	30 December 2010		31 December 2009	
				Face value £m	Carrying amount £m	Face value £m	Carrying amount £m
Unsecured bank loan	GBP	LIBOR + 0.7%	2012	102.0	101.8	111.0	110.4
Finance lease liability	GBP	7.2%	2029	6.8	6.8	6.9	6.9
Total interest bearing liabilities				<b>108.8</b>	<b>108.6</b>	117.9	117.3

On 26 April 2007 the bank loans were refinanced with a new term loan of £135m for a term of five years and interest charged at 0.70% (2009: 0.95%) above LIBOR based on the current position with respect to the covenants. The range payable above LIBOR is 0.7%–1.35% depending on the covenant headroom. The balance of the loan at 30 December 2010 was £102m. In addition to the term loan, the Group has a £30m revolver facility.

See Note 21 for bank loan maturity analysis.

#### Finance Lease Liabilities

The maturity of obligations under finance leases is as follows:

	30 December 2010 £m	31 December 2009 £m
Within one year	0.6	0.6
Between one and two years	0.6	0.6
In the second to fifth years	1.8	1.7
Over five years	9.8	10.4
	<b>12.8</b>	13.3
Less future finance charges	<b>(6.0)</b>	(6.4)
	<b>6.8</b>	6.9

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

### Analysis of net debt

	Cash at bank and in hand £m	Bank loans £m	Finance leases £m	Interest rate swap £m	Net debt £m
<b>At 25 December 2008</b>	<b>12.8</b>	<b>(119.1)</b>	<b>(6.9)</b>	<b>(4.2)</b>	<b>(117.4)</b>
Cash flows	4.1	9.0	0.5	–	13.6
Non-cash movement	–	(0.3)	(0.5)	0.3	(0.5)
<b>At 31 December 2009</b>	<b>16.9</b>	<b>(110.4)</b>	<b>(6.9)</b>	<b>(3.9)</b>	<b>(104.3)</b>
Cash flows	(6.3)	9.0	0.6	–	3.3
Non-cash movement	–	(0.4)	(0.5)	1.1	0.2
<b>At 30 December 2010</b>	<b>10.6</b>	<b>(101.8)</b>	<b>(6.8)</b>	<b>(2.8)</b>	<b>(100.8)</b>

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

## 17 Trade and Other Payables

	30 December 2010 £m	31 December 2009 £m
<b>Current</b>		
Trade payables	<b>12.3</b>	21.8
Other payables	<b>5.5</b>	4.7
Accruals and deferred income	<b>29.7</b>	20.0
	<b>47.5</b>	46.5
<b>Non current</b>		
Accruals and deferred income	<b>52.5</b>	53.5

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

## 18 Employee Benefits

### Pension Plans

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

### MGM Scheme

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

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

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

Following the UK Government's announcement in summer 2010, the inflation index to be used to derive statutory pension increases has been changed from the Retail Prices Index ("RPI") to the Consumer Prices Index ("CPI"). Due to differences between the indices, including both constituents and construction, CPI is expected to be less than RPI over the long term which means that the Scheme liabilities will reduce. After the period end, the Company and Trustees received legal advice that the Government's change to statutory indexation will apply automatically to pensions in deferment and to pension increases in payment on certain tranches of pension. The reduction in the value placed on the Scheme's liability, estimated at £0.9m, will be treated as a negative past service cost in the 2011 Statement of Comprehensive Income.

The Company made contributions of £1.6m during 2010 (2009: £1.6m).

# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### 18 Employee Benefits continued

#### Adelphi-Carlton Limited Contributory Pension Plan

The Adelphi-Carlton Limited Contributory Pension Plan is closed to new entrants and therefore the current service cost is £nil. The trustees of the Adelphi-Carlton Contributory Pension Plan have not agreed that any surplus on the plan can be refunded to the Company. Accordingly the surplus has not been recognised. The Scheme has a surplus of £0.6m as at 30 December 2010 (2009: £0.6m).

Actuaries for Adelphi-Carlton Limited carried out the last actuarial valuation of the scheme as at 1 April 2007. Based on this assessment, the actuarial value of the assets of the scheme was more than sufficient to cover 100% of the benefits that had accrued to members. In view of this, a suspension of Company contributions was in force from 1 April 2001 to 30 December 2010. Total contributions for the 53 weeks ended 31 December 2009 and 52 weeks ended 30 December 2010 were £nil and £nil, respectively.

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

	30 December 2010 £m	31 December 2009 £m
MGM Pension scheme	–	(0.7)
<b>Net surplus/(deficit)</b>	<b>–</b>	<b>(0.7)</b>

#### MGM Pension Scheme

	30 December 2010 £m	31 December 2009 £m
Present value of funded defined benefit obligations	<b>(28.3)</b>	(26.6)
Fair value of plan assets	<b>28.3</b>	25.9
<b>Surplus/(deficit) in scheme</b>	<b>–</b>	<b>(0.7)</b>

Movements in present value of defined benefit obligation:

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
At beginning of period	<b>(26.6)</b>	(24.4)
Interest cost	<b>(1.5)</b>	(1.5)
Contributions by scheme participants	–	(0.1)
Actuarial loss	<b>(1.4)</b>	(1.7)
Benefits paid	<b>1.2</b>	1.1
<b>At end of period</b>	<b>(28.3)</b>	<b>(26.6)</b>

Movements in fair value of plan assets:

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
At start of period	<b>25.9</b>	21.8
Expected return on plan assets	<b>1.3</b>	1.0
Actuarial gains	<b>0.7</b>	2.5
Contributions by employer	<b>1.6</b>	1.6
Contributions by members	–	0.1
Benefits paid	<b>(1.2)</b>	(1.1)
<b>At end of period</b>	<b>28.3</b>	<b>25.9</b>

## 18 Employee Benefits continued

Income/(expense) recognised in the consolidated statement of comprehensive income:

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
Interest on defined benefit pension plan obligation	(1.5)	(1.5)
Expected return on defined benefit pension plan assets	1.3	1.0
<b>Total</b>	<b>(0.2)</b>	<b>(0.5)</b>

The income/(expense) is recognised in the following line items in the consolidated statement of comprehensive income:

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
Financial expenses	(1.5)	(1.5)
Financial income	1.3	1.0
<b>Total</b>	<b>(0.2)</b>	<b>(0.5)</b>

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

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
Actuarial (losses)/gains recognised in the period	(0.7)	0.8
Cumulative amount at start of period	1.0	0.2
<b>Cumulative amount at end of period</b>	<b>0.3</b>	<b>1.0</b>

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

	Long-term rate of return expected at 30 December 2010	52 week period ended 30 December 2010 £m	Long-term rate of return expected at 31 December 2009	53 week period ended 31 December 2009 £m
Equities	7.70%	13.5	8.00%	11.6
Property	7.20%	0.4	n/a	n/a
Fixed interest bonds	4.20%	–	4.50%	–
Index linked bonds	4.00%	7.1	4.25%	5.1
Corporate bonds	5.20%	6.0	5.50%	8.0
Other	1.40%	1.3	1.00%	1.2
		<b>28.3</b>		<b>25.9</b>



# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### 18 Employee Benefits continued

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

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
Expected return on scheme assets	1.3	1.0
Actuarial gains	0.7	2.5
<b>Actual return on plan assets</b>	<b>2.0</b>	<b>3.5</b>

Principal actuarial assumptions (expressed as weighted averages):

	52 week period ended 30 December 2010 %	53 week period ended 31 December 2009 %
RPI Inflation	3.8	3.9
CPI Inflation	2.9	–
Rate of general long-term increase in salaries	4.8	4.9
Rate of increase to pensions in payment	2.6–3.9	2.7–4.0
Discount rate for scheme liabilities	5.4	5.7

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 22.0 years if they are male and for a further 24.0 years if they are female. For a member who retires in ten years at age 65 the assumptions are that they will live on average for a further 23.2 years after retirement if they are male and for a 25.2 years after retirement if they are female.

#### History of Plans

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

#### Balance Sheet

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m	52 week period ended 25 December 2008 £m	52 week period ended 27 December 2007 £m	52 week period ended 28 December 2006 £m
Present value of defined benefit obligation	(28.3)	(26.6)	(24.4)	(26.6)	(26.4)
Fair value of plan assets	28.3	25.9	21.8	24.2	21.8
<b>Surplus/(deficit)</b>	<b>–</b>	<b>(0.7)</b>	<b>(2.6)</b>	<b>(2.4)</b>	<b>(4.6)</b>

#### Experience Adjustments

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m	52 week period ended 25 December 2008 £m	52 week period ended 27 December 2007 £m	52 week period ended 28 December 2006 £m
Experience gain/(loss) on plan assets	0.7	2.5	(4.4)	0.3	0.3
Experience gain/(loss) on plan liabilities	0.2	2.7	–	–	(1.8)

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

#### Defined Contribution Plans

The Group operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £0.4m (2009: £0.4m)

#### Share-Based Payments

As at 30 December 2010 there were three types of share option and share schemes: the Employee Sharesave Scheme, the Cineworld Group Performance Share Plan and the Company Share Option Plan.

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## **18 Employee Benefits** continued

### **Employee Sharesave Scheme**

Grants were made under the sharesave scheme in 2007 and 2008.

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

#### **Period ended 31 December 2009**

A charge of £62,000 was recorded in the income statement for the period in respect of both the 2007 and 2008 Sharesave scheme grants.

#### **Period ended 30 December 2010**

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

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

#### **Period ended 31 December 2009**

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

- 30% of the shares under the award will vest if the average annual growth in earnings per share ("EPS") (calculated by comparing the EPS for the financial year ended 25 December 2008 and the EPS for the financial year ending 29 December 2011) is not less than 3.2%
- 100% of the shares under the Award will vest if the average annual growth in EPS (calculated by comparing the EPS for the financial year ended 25 December 2008 and the EPS for the financial year ending 29 December 2011) is at least 9.2%
- Where the average annual growth in EPS (calculated by comparing the EPS for the financial year ended 25 December 2008 and the EPS for the financial year ending 29 December 2011) is between the two limits above, the Award shall vest on a straight-line basis between 30% and 100%.

Grants were made under the PSP scheme on 26 March 2009. Under these grants, awards over 242,186 shares were made with the conditions above. Further awards over 137,451 shares were made which will vest after three years subject to continued employment only, with no specified performance conditions attached.

EPS for the 2009 grant was defined as adjusted pro-forma diluted earnings per share as calculated in Note 5 to the financial statements.

A charge of £387,000 was recorded in the income statement in respect of the 2008 and 2009 PSP schemes.

#### **Period ended 30 December 2010**

Further grants were made under the PSP scheme on 30 March 2010. Under these grants, awards over 252,654 shares were made in total. Awards over 173,832 shares were made with the same performance conditions as the 2009 grant, but with reference to the financial years 31 December 2009 to 30 December 2012. Further awards over 78,822 shares were made which will vest after three years subject to continued employment only, with no specified performance conditions attached.

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

A charge of £484,000 was recorded in the income statement in respect of the 2008, 2009 and 2010 PSP schemes.

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

#### **Period ended 30 December 2010**

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

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

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

# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### 18 Employee Benefits continued

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

	Weighted average exercise price 2010 (£) Equity settled	Number of options 2010 Equity settled	Weighted average exercise price 2009 (£) Equity settled	Number of options 2009 Equity settled
Outstanding at the beginning of the year	0.44	1,378,886	0.67	1,085,819
Exercised during the year	1.63	(20,088)	–	–
Granted during the year	0.46	328,404	–	379,637
Lapsed during the year	1.13	(81,687)	1.27	(86,570)
Outstanding at the end of the year	0.40	1,605,515	0.44	1,378,886
Exercisable at the end of the year	1.63	32,880	–	–

The average share price during 2010 was £1.92 (2009: £1.40).

Assumptions relating to grants of share options in 2009 were:

Scheme name	Date of grant	Share price at grant (£)	Exercise price (£)	Expected volatility (%)	Expected life (years)	Dividend yield (%)	Risk free rate (%)	Fair value (£)
PSP	26 March 2009	1.28	nil	53	3.0	6.5	0.61	1.05

Assumptions relating to grants of share options in 2010 were:

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

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

	52 week period ended 30 December 2010 £m	53 week period ended 31 December 2009 £m
Equity-settled share-based payment expense	0.5	0.4
<b>Share-based payments expenses</b>	<b>0.5</b>	<b>0.4</b>

## 19 Provisions

	Property provisions £m
Balance at 31 December 2009	11.8
Non-current	10.6
Current	1.2
<b>Total</b>	<b>11.8</b>
Balance at 31 December 2009	11.8
Provisions made during the period	0.5
Effect of change in discount rate during the period	0.8
Utilised against rent during the period	(2.2)
Unwound against interest during the period	1.0
<b>Balance at 30 December 2010</b>	<b>11.9</b>
Non-current	9.6
Current	2.3
<b>Total</b>	<b>11.9</b>

Property provisions relate to onerous leases, dilapidations and other property liabilities. The majority of the property provision relates to onerous leases being the rent payable on particular cinema sites that is in excess of the economic benefits expected to be derived from their operation on a discounted basis. The remaining provision will be utilised over the period to the next rent review date or the remaining lease life depending on the term of the lease. This is between one and thirty years (see further analysis below). The discount rate used in the period was 9.5% (2009: 10.1%).

	30 December 2010 £m	31 December 2009 £m
<b>Expected timing for utilisation of property provisions</b>		
Analysed as:		
Within one year	2.3	1.2
Between one and two years	1.1	1.5
In the second to fifth years	2.5	2.9
Over five years	6.0	6.2
	<b>11.9</b>	<b>11.8</b>

## 20 Capital and Reserves

### Share Capital

	30 December 2010 £m	31 December 2009 £m
<b>Cineworld Group plc</b>		
<i>Authorised</i>		
250,000,000 ordinary shares of £0.01 each	2.5	2.5
<i>Allotted, called up and fully paid</i>		
141,741,597 (2009: 141,721,509) ordinary shares of £0.01 each	1.4	1.4

During the year 20,088 ordinary shares were issued of nominal value £0.01 as part of the employee sharesave scheme. Consideration of £32,000 was received.

### Translation Reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### 20 Capital and Reserves continued

#### Hedging Reserve

The hedging reserve comprises the liability in relation to the interest rate swap entered into to hedge against variable interest payments on £51.0m (2009: £57.8m) of the total £102.0m (2009: £111.0m) of bank debt. As hedge accounting has been adopted the gains/losses are recorded through equity until such time as the cash flows being hedged occur, when they are recycled to the income statement.

#### Dividends

The following dividends were recognised during the period:

	2010 £m	2009 £m
Interim	4.8	4.5
Final (for the preceding period)	9.7	9.0
	<b>14.5</b>	<b>13.5</b>

An interim dividend of 3.4p per share was paid on 8 October 2010 to ordinary shareholders (2009: 3.2p). The Board has proposed a final dividend of 7.1p per share, which will result in total cash payable of £10.1m on 6 July 2011 (2009: final dividend £9.7m). In accordance with IAS10 this had not been recognised as a liability at 30 December 2010.

### 21 Financial Instruments

#### Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

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

#### Credit Risk

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

The Group's credit risk is primarily attributable to its trade receivables. However due to the nature of the Group's business, trade receivables are not significant which limits the related credit risk. The Group's trade receivables are disclosed in Note 15. Of the total balance of £2.4m (2009: £1.2m) due 81% (2009: 50%) are within credit terms. A further 8% (2009: 24%) outside credit terms cleared after the period end and before signing of the financial statements. The bad debt provision as at 2010 is £nil (2009: £0.1m), with a bad debt expense in the period of £nil (2009: £0.1m). Based on past experience the Group believes that no additional impairment allowance is necessary in respect of the trade receivables that are past due. In 2010 the amount of trade receivables past due but unimpaired is £0.2m. The credit risk on liquid funds and derivative financial instruments is also limited because the counterparties are banks with high credit-ratings.

#### Liquidity risk

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

In addition to the financial liabilities set out in the table below, the Group has a £30m revolver facility with Barclays Bank available to May 2012. For more details, see Note 1 Basis of preparation.

## 21 Financial Instruments continued

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

### 30 December 2010

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

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

### 31 December 2009

	Carrying amount £m	Contractual cash flows £m	6 mths or less £m	6-12 months £m	1-2 years £m	2-5 years £m	More than 5 years £m
<b>Non-derivative financial liabilities</b>							
Unsecured bank loans	110.4	(114.8)	(5.4)	(5.3)	(10.6)	(93.5)	-
Finance lease liabilities	6.9	(13.3)	(0.3)	(0.3)	(0.6)	(1.7)	(10.4)
Trade and other payables	21.8	(21.8)	(21.8)	-	-	-	-
<b>Derivative financial liabilities</b>							
Interest rate swaps used for hedging	3.9	(6.0)	(1.3)	(1.3)	(2.6)	(0.8)	-
	<b>143.0</b>	<b>(155.9)</b>	<b>(28.8)</b>	<b>(6.9)</b>	<b>(13.8)</b>	<b>(96.0)</b>	<b>(10.4)</b>

### Cash Flow Hedges

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

### 30 December 2010

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

### 31 December 2009

	Carrying amount £m	Expected cash flows £m	6 mths or less £m	6-12 months £m	1-2 years £m	2-5 years £m	More than 5 years £m
Interest rate swaps: Liabilities	<b>(3.9)</b>	<b>(3.9)</b>	<b>(1.3)</b>	<b>(1.3)</b>	<b>(1.1)</b>	<b>(0.2)</b>	-

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

### Market Risk

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



# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### 21 Financial Instruments continued

#### Foreign Currency Risk

The majority of the Group's operations are in the United Kingdom and hence for these operations there is no exposure to foreign currency risk other than in respect of certain purchases that may be denominated in currencies other than sterling. In addition there is an operation in Ireland where non-sterling revenues, purchases, financial assets and liabilities and cash flows can be affected by movements in Euro rates. However, the exposure is limited as euro operations are not significant. A 10% increase/(decrease) in the value of €1 against sterling would increase/decrease the profit before tax for 2010 by approximately £23,000 (2009: £107,000.) A 10% increase/(decrease) in the value of €1 against sterling would increase/decrease equity in 2010 by approximately £27,000 (2009: £139,000.)

#### Interest Rate Risk

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

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

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

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

At the period end the Group had one interest rate swap which hedged 50% (2009: 52.1%) of the Group's variable rate unsecured bank debt. As a result, there is no impact on the income statement relating to the hedged bank debt as a result of any changes in interest rates.

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

	Carrying amount	
	2010	2009
<b>Fixed rates instruments</b>		
Financial liabilities (interest rate swap)	(2.8)	(3.9)
Financial liabilities (unsecured bank loans – hedged portion)	(51.0)	(57.8)
	<b>(53.8)</b>	(61.7)
<b>Variable rate instruments</b>		
Financial liabilities (unsecured bank loans – unhedged portion)	(51.0)	(53.2)

£51.0m (2009: £57.8m) of the variable rate financial liability is hedged via the interest rate swap with the balance attracting a variable interest rate.

#### Fair Value Sensitivity Analysis for Fixed Rate Instruments

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

A change of 100 basis points in interest rates would have increased equity by £0.5m or decreased equity by £0.5m (2009: increase £1.1m, decrease £1.1m) and would have increased or decreased profit or loss by £nil (2009: £nil).

## 21 Financial Instruments continued

### Cash Flow Sensitivity Analysis for Variable Rate Instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

Effect in GBP thousands	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<b>30 December 2010</b>				
Variable rate instruments	(1,087)	1,087	(1,087)	1,087
Interest rate swap	543	(543)	543	(543)
Cash flow sensitivity (net)	(544)	544	(544)	544
<b>31 December 2009</b>				
Variable rate instruments	(1,191)	1,191	(1,191)	1,191
Interest rate swap	595	(595)	595	(595)
Cash flow sensitivity (net)	(596)	596	(596)	596

### Fair Values

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

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

	Carrying amount	Fair value	Carrying amount	Fair value
	30 December 2010	30 December 2010	31 December 2009	31 December 2009
	£m	£m	£m	£m
Unsecured bank loans	101.8	99.3	110.4	106.5
Finance lease liabilities	6.8	6.8	6.9	6.9
Interest rate swaps	2.8	2.8	3.9	3.9
	111.4	108.9	121.2	117.3

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

The difference between net carrying amount and estimated fair value reflects unrealised gains or losses inherent in the instruments based on valuations at 30 December 2010 and 31 December 2009. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

### Fair Value Hierarchy

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

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

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>30 December 2010</b>				
Derivative financial instruments	-	2.8	-	2.8
<b>31 December 2009</b>				
Derivative financial instruments	-	3.9	-	3.9

# Notes to the Consolidated Financial Statements continued

## (Forming Part of the Financial Statements)

### 21 Financial Instruments continued

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

#### Capital Management

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

	2010 £m	2009 £m
Cash and cash equivalents	10.6	16.9
Loan notes outstanding	101.8	110.4
Equity attributable to equity holders of the parent	191.2	188.3
	<b>303.6</b>	<b>315.6</b>

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

The Group has a £30m revolver, which is used to manage uneven working capital requirements.

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

### 22 Operating Leases

Non-cancellable operating lease rentals commitments are as follows:

	Land and buildings £m	Other £m	30 December 2010 £m	Land and buildings £m	Other £m	31 December 2009 £m
Less than one year	50.8	0.4	51.2	46.9	0.4	47.3
Between one and five years	210.6	1.6	212.2	190.7	1.3	192.0
More than five years	875.4	-	875.4	688.9	-	688.9
	<b>1,136.8</b>	<b>2.0</b>	<b>1,138.8</b>	926.5	1.7	928.2

### 23 Capital Commitments

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

	30 December 2010 £m	31 December 2009 £m
Contracted	-	2.9

Since the end of the financial period and the signing of the financial statements, capital commitments were made of £6.2m relating to digital projection equipment and £2.3m relating to new sites.

### 24 Related Parties

The compensation of key management personnel (including the Directors) is as follows:

	Salary and fees including bonus £000	Compensation for loss of office £000	Pension contributions £000	Total £000
<b>52 weeks ended 30 December 2010</b>				
Total compensation for key management Personnel (including the Directors)	1,698	-	142	1,840
<b>53 weeks ended 31 December 2009</b>				
Total compensation for key management Personnel (including the Directors)	1,841	-	147	1,988

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#### **24 Related Parties** continued

During 2010, M Tooth and A Roux served as Directors appointed by Blackstone, a major shareholder. A Roux left the Board in November 2010 following the divestment of the Blackstone holding. Their Directors' fees of £33,000 and £28,875 respectively (2009: £33,000, £3,300) are payable to Blackstone. L Guffey who was appointed by Blackstone resigned in November 2009 (2009 fees: £29,700) and A Roux was appointed in his place.

Share-based compensation benefit charges for key management personnel (including Directors) was £0.3m in 2010 (2009: £0.2m).

#### **Other Related Party Transactions**

Digital Cinema Media Limited ("DCM") is a joint venture between the Group and Odeon Cinemas Holdings Limited set up on 10 July 2008. Revenue receivable from DCM in the 52 week period ending 30 December 2010 totalled £13.8m (53 week period ending 31 December 2009: £11.3m) and as at 30 December 2010 £2.0m (2009: £1.2m) was due from DCM in respect of receivables. In addition the Group has a working capital loan outstanding from DCM of £0.5m (2009: £0.5m). The Group has guaranteed £2.75m of DCM's bank debt payable to Royal Bank of Scotland. The Group does not consider it is probable that it will be called on under the terms of the guarantee.

# Company Balance Sheet

## at 30 December 2010

	Note	30 December 2010 £000	30 December 2010 £000	31 December 2009 £000	31 December 2009 £000
<b>Fixed assets</b>					
Investments	28		<b>132,313</b>		131,798
<b>Current assets</b>					
Debtors	29	<b>123,667</b>		105,667	
Cash at bank		<b>53</b>		5,003	
		<b>123,720</b>		110,670	
<b>Creditors:</b> amount falling due within one year	30	<b>(64,823)</b>		(54,211)	
<b>Net current assets</b>			<b>58,897</b>		56,459
<b>Net assets</b>			<b>191,210</b>		188,257
<b>Capital and reserves</b>					
Called up share capital	31		<b>1,417</b>		1,417
Share premium account	31		<b>171,386</b>		171,354
Profit and loss account	31		<b>18,407</b>		15,486
<b>Shareholders' funds – equity</b>			<b>191,210</b>		188,257

These financial statements were approved by the Board of Directors on 10 March 2011 and were signed on its behalf by:

**Stephen Wiener**  
Director

**Richard Jones**  
Director

## Company Reconciliation of Movements in Shareholders' Funds for the Period Ended 30 December 2010

	Note	52 week period ended 30 December 2010 £000	53 week period ended 31 December 2009 £000
Profit for the period		<b>16,862</b>	10,763
Dividends paid during the period	31	<b>(14,456)</b>	(13,463)
Equity instruments granted	31	<b>515</b>	449
Share issue		<b>32</b>	–
<hr/>			
<b>Net increase/(decrease) in shareholders' funds</b>		<b>2,953</b>	(2,251)
Opening shareholders' funds		<b>188,257</b>	190,508
<hr/>			
<b>Closing shareholders' funds</b>		<b>191,210</b>	188,257



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# Notes to the Company Financial Statements

## 25 Accounting Policies

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

### Basis of Preparation

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

Information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Chief Executive and Chief Financial Officer's Report and the Risks and Uncertainties section on pages 8 to 18. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive and Chief Financial Officer's Report on pages 8 to 15. In addition Note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

As highlighted in Note 16 to the financial statements, the Group meets its day to day working capital requirements through its bank facilities which consist of a £102m term loan plus £30m revolver which matures in 2012. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance in the foreseeable future.

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

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

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

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

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

The Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Cineworld Group where the Group controls 90% or more of the voting rights.

### Investments

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

### Impairment

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

### Deferred Taxation

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

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

### Classification of financial instruments issued by the Company

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

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

## 25 Accounting Policies continued

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

### Share-Based Payment Transactions

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

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

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

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

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

## 26 Staff Numbers and Costs

The Company has no employees. Non-Executive Directors salaries are recharged to the Company from its subsidiary Cineworld Cinemas Ltd. Total salaries paid to Non-Executive Directors were £340,000 (2009: £300,000) See pages 36 to 40 for details of directors emoluments.

## 27 Fixed Asset Investments

Company	Shares in Group undertakings £000
Balance at 31 December 2009	131,798
Additions	515
<b>Balance at 30 December 2010</b>	<b>132,313</b>
<b>Net book value</b>	
At 31 December 2009	131,798
<b>At 30 December 2010</b>	<b>132,313</b>

For details of £515,000 addition to investment see Note 31.

# Notes to the Company Financial Statements continued

## 27 Fixed Asset Investments continued

	Country of incorporation	Principal activity	Class	% of shares held
<b>Subsidiary undertakings</b>				
<i>Directly Held</i>				
Augustus 1 Limited	England and Wales	Holding company	Ordinary	100
<i>Indirectly Held</i>				
Augustus 2 Limited	England and Wales	Holding company	Ordinary	100
Cineworld Holdings Limited	England and Wales	Holding company	Ordinary	100
Cine-UK Limited	England and Wales	Cinema operation	Ordinary	100
Cineworld Cinemas Holdings Limited	England and Wales	Holding company	Ordinary	100
Cineworld Cinemas Limited	England and Wales	Holding company and cinema operation	Ordinary	100
Cineworld Finance Limited	England and Wales	Dormant	Ordinary	100
Cineworld Estates Limited	England and Wales	Cinema property leasing	Ordinary	100
Cineworld South East Cinemas Limited	England and Wales	Holding company	Ordinary	100
Cineworld Exhibition Limited	England and Wales	Dormant	Ordinary	100
Gallery Holdings Limited	England and Wales	Holding company	Ordinary	100
			"A" Ordinary	100
			Preference	100
Gallery Cinemas Limited	England and Wales	Dormant	Ordinary	100
Slough Movie Centre Limited	England and Wales	Dormant	Ordinary	100
Adelphi-Carlton Limited	Eire	Cinema operation	Ordinary	100
Cineworld Cinema Properties Limited	England and Wales	Property company	Ordinary	100
Cineworld Elite Pictures Theatre (Nottingham) Limited	England and Wales	Non-trading	Ordinary	98.2
			Cum 5% Pref	99.6
Classic Cinemas Limited	England and Wales	Retail services company	Ordinary	100
Computicket Limited	England and Wales	Dormant	Ordinary	100
Digital Cinema Media Limited	England and Wales	Screen Advertising	Ordinary	50

## 28 Debtors

	30 December 2010 £000	31 December 2009 £000
Amounts due from subsidiary undertakings	<b>123,667</b>	105,667
	<b>123,667</b>	105,667

## 29 Creditors: Amounts Falling Due Within One Year

	30 December 2010 £000	31 December 2009 £000
Amounts due to subsidiary undertakings	<b>64,823</b>	54,174
Corporation tax payable	–	37
	<b>64,823</b>	54,211

## 30 Share Capital and Reserves

	Share capital £000	Share premium account £000	Profit and loss account £000	Total £000
At 31 December 2009	1,417	171,354	15,486	188,257
Profit for the period	–	–	16,862	16,862
Dividends paid during the period	–	–	(14,456)	(14,456)
Equity instruments granted	–	–	515	515
Share issue	–	32	–	32
<b>At 30 December 2010</b>	<b>1,417</b>	<b>171,386</b>	<b>18,407</b>	<b>191,210</b>

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### **30 Share Capital and Reserves** continued

For details of share issue see Note 20.

Share premium is stated net of share issue costs.

Equity instruments granted of £515,000 represents the fair value of share options granted to employees of subsidiary undertakings. There is a corresponding increase in investments, see Note 28.

This element of the profit and loss reserve is not distributable.

### **31 Share-Based Payments**

See Note 18 of the Group financial statements.

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# Shareholder Information

## Directors

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

## Head Office

Power Road Studios  
114 Power Road  
Chiswick  
London W4 5PY

## Telephone Number

0208 987 5000

## Website

[www.cineworld.co.uk](http://www.cineworld.co.uk)  
[www.cineworldplc.com](http://www.cineworldplc.com)

## Place of Incorporation

England and Wales

## Company Number

Registered Number: 5212407

## Registrar

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

## Auditors

KPMG Audit Plc  
15 Canada Square  
London E14 5GL

## Final Dividend – 2010

Announcement	10 March 2011
Ex Dividend	8 June 2011
Record Date	10 June 2011
Payment Date	6 July 2011

## Joint Brokers

JP Morgan Cazenove Ltd  
20 Moorgate  
London EC2R 6DA

Evolution Securities Limited  
100 Wood Street  
London EC2V 7AN

## Legal Advisors to the Company

Olswang  
90 High Holborn  
London WC1V 6XX

## Public Relations Advisors

M: Communications  
1 Ropemaker Street  
Ninth Floor  
London EC2Y 9HT

## Registered Office

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