



Cineworld Group plc  
Annual Report and Accounts 2012

A photograph of a diverse group of people sitting in a cinema, smiling and looking towards the screen. The lighting is dim, typical of a movie theater.

**Focused on being  
the UK's favourite**

# Vision

To be the favourite cinema chain.



# Strategy

**Put our customers  
at the heart of  
everything we do**

**Deliver a great  
cinema  
experience**

**Develop our  
people,  
effectiveness  
and efficiencies**

**Grow our estate**

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# Highlights

# 2012

## Group revenue (£m) 52 weeks

Group including Picturehouse  
12 **358.7** +3.1%  
11 348.0

Group excluding Picturehouse  
12 **356.2** +2.4%  
11 348.0

## EBITDA<sup>1</sup> (£m) 52 weeks

Group including Picturehouse  
12 **67.1** +6.0%  
11 63.3

Group excluding Picturehouse  
12 **66.6** +5.2%  
11 63.3

## Profit before tax (£m) 52 weeks

Group including Picturehouse  
12 **38.5** +15.3%  
11 33.4

## Diluted EPS (p) 52 weeks

Group including Picturehouse  
12 **19.1** +14.4%  
11 16.7

## Adjusted pro-forma profit before tax (£m) 52 weeks

Group including Picturehouse  
12 **40.7** +10.0%  
11 37.0

## Adjusted pro-forma diluted EPS (p) 52 weeks

Group including Picturehouse  
12 **21.2** +10.4%  
11 19.2

## Proposed final dividend (£m) 52 weeks

Group including Picturehouse  
12 **8.0** +8.1%  
11 7.4

## Proposed full year dividend (p) 52 weeks

Group including Picturehouse  
12 **11.8** +7.3%  
11 11.0

### Other key highlights for Cineworld Cinemas (excluding Picturehouse)

- Cineworld Cinemas' box office market share of 24.7% (2011: 24.8%) in UK and Ireland (Rentrak/EDI);
- Cineworld Cinemas' box office up 3.9% at £251.6m against 2011;
- Admissions 1.0% lower than 2011 at 47.8m;
- Average ticket price per admission up 5.0% to £5.26 (2011: £5.01) with higher average retail spend per person at £1.72 (2011: £1.69);
- Acquisition of the Picturehouse Group of cinemas on 6 December for £47.3m;
- Opening of a new seven screen cinema at Aldershot;
- Digital conversion fully completed during summer 2012; and
- IMAX screens has increased to eight cinemas.

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

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

Picturehouse results consolidated for 22 days covering 6 December 2012 to 27 December 2012.

## Chairman's Statement

**"The Board remains committed to maintaining a strong culture of governance throughout the whole organisation."**



I am pleased to report that the Group delivered a satisfactory year of trading in 2012 particularly against a background of significant public events which adversely affected cinema attendance namely the Queen's Diamond Jubilee celebrations, the European football championships and the London Olympics.

Our gross UK and Ireland box office market share was 24.7%, according to Rentrak/EDI which was a credible result in a market which saw some consolidation of smaller cinema operators by our main competitors. It is a clear demonstration of the success of our efforts to increase the competitiveness of our film and retail offers, our pricing and the comfort and accessibility of our cinemas.

It was a busy year for the Group in the execution of our growth strategy and investment activities. We successfully completed the conversion of our estate to digital projectors, opened a new seven screen cinema in Aldershot on 26 October on schedule and we expanded our IMAX screens to eight locations. Our focus on the customer and the cinema experience remains as important as ever and forms a significant part of our Customer First strategy. During the year, Cineworld was the first major cinema operator to abolish booking fees and it also launched a 10% reduction in the price of tickets booked online through MyCineworld. Our Unlimited subscription programme continued to expand and still remains a unique offering in UK and Ireland.

The most significant event of the year was the successful acquisition of Picturehouse on 6 December. Picturehouse cinemas are characterised by their individual and often unique styles and they appeal to a more mature audience with a different retail offering and film choice. The chain operates in a different market segment from that of Cineworld Cinemas and has the potential to grow under its own brand and separate management. There are opportunities to share best practices across retail, operations and film programming activities. I am very excited by

the potential growth prospects for the Group and I would like to welcome Lyn Goleby, Picturehouse's Managing Director, and her management team to the Group.

It is therefore a pleasure to report that the Board has proposed a 7.3% increase in the full year dividend for 2012 to 11.8p, which continues the year on year growth in dividends every year since 2008. This is an achievement of which we are particularly proud, more especially as it has taken place in challenging economic times. Notwithstanding the increased dividend proposal and the Picturehouse acquisition, the balance sheet remains strong.

The Board remains committed to maintaining a strong culture of governance throughout the whole organisation. We continue to take note of issues concerning the environment, remuneration, gender and diversity and health and safety and where appropriate to review our practices accordingly.

Tom McGrath has decided to step down at the Annual General Meeting on 15 May 2013 and not stand for re-election. He has been a Non-Executive Director since May 2005 and has made a significant contribution since that time, particularly keeping the Board up to date on developments in the film and cinema industry in the US. He is Chairman of the Nomination Committee, a role that Rick Senat will fill going forward.

We believe that the economic and financial challenges will continue during 2013 and that the competitive landscape will remain tough. We will strive to continually improve what we offer to our customers and to make Cineworld's and Picturehouse's cinemas the consumer's choice. There are attractive growth prospects for both chains. Cineworld Cinemas has a strong pipeline of new multiplex cinemas over the next five years and in 2013 plans to open four new cinemas at Wembley, St Neots, Gloucester and Glasgow Science Centre. Picturehouse gives the Group further growth opportunities and adds to my optimism about the future prospects of the Group.

On behalf of the Board, I would like to thank our management and our employees for their hard work and achievements. Our people continue to demonstrate a high degree of motivation and passion for the business and for delivering success. The Group has a successful business model that has proven itself over successive years and which has delivered a strong financial and competitive position. I will be working with management and staff to move the business forward and look forward to reporting continued growth to you, our shareholders.

**Anthony Bloom**  
Chairman  
7 March 2013



# Picturehouse

## A different experience

The Picturehouse chain of cinemas joined the Cineworld Group in December 2012. Consisting of 21 cinemas each with five or fewer screens and their own individual styles, they offer something very different to Cineworld Cinemas multiplexes. Situated in urban areas, they cater for students and a diverse affluent adult audience who appreciate arthouse films, the unique ambience and more intimate cinema going experience.

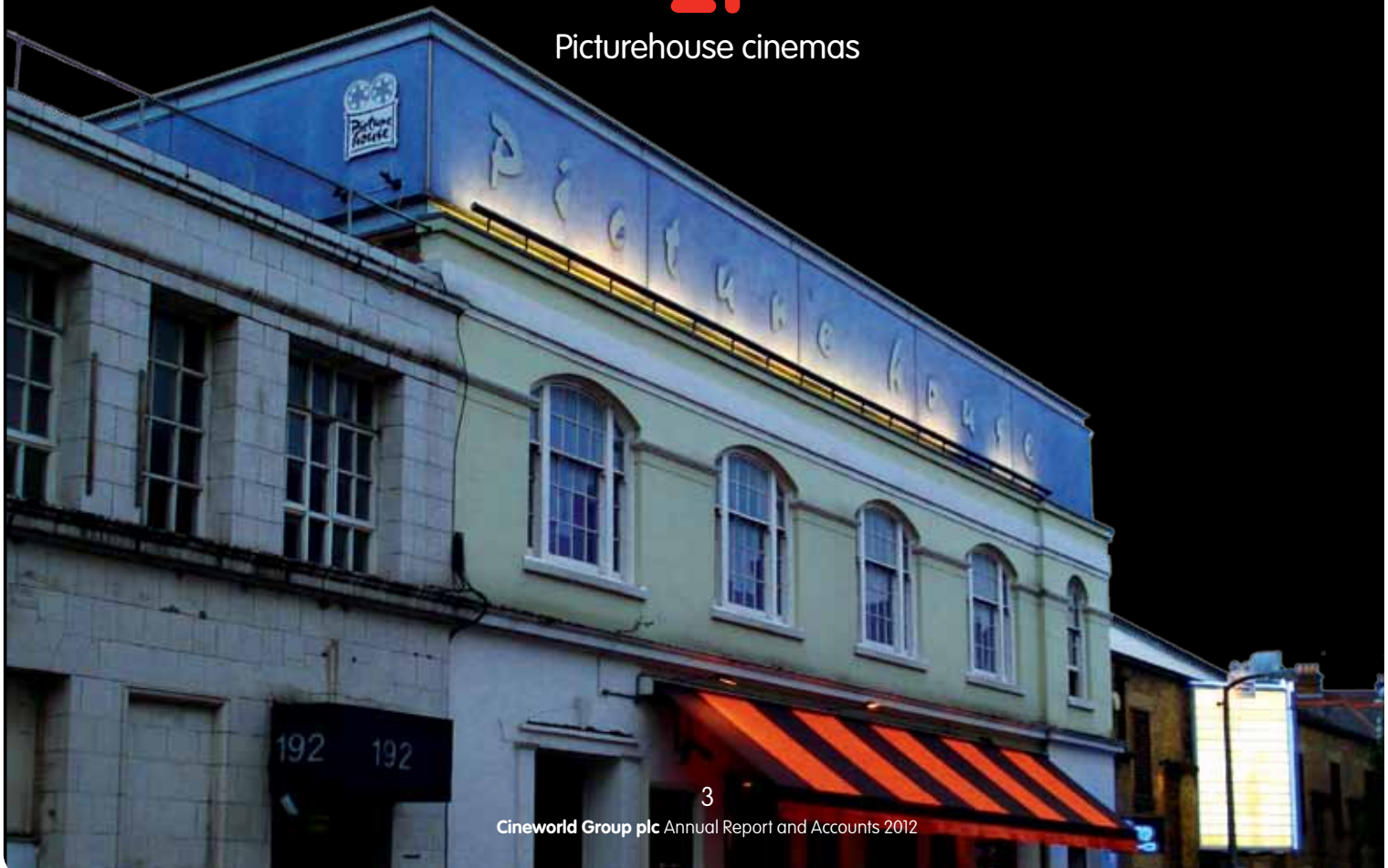
There is more to Picturehouse than just cinemas however, it has a strong café bar culture and offers a very wide range of alternative content. It provides operating systems to other cinemas, acts as a distributor for smaller films and even programmes screenings at 34 independently owned cinemas.

Looking to the future, a new Picturehouse opened in Brighton in December 2012 and there are plans to expand the chain further and bring the unique arthouse experience to more locations around the country.

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21

Picturehouse cinemas



# UK and Ireland Market Overview

## Box office revenue in 2012 in the combined UK and Irish market increased 2.9%.

The combined UK and Irish cinema market continues to be dominated by three major UK exhibitors, Cineworld Cinemas, 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 Group plc is listed on the London Stock Exchange, while Odeon UCI and Vue are both privately owned groups.

Cineworld Cinemas' box office market shares in the UK and the combined UK and Irish markets in 2012 were 25.9% and 24.7% respectively (2011: 26.1% and 24.6% respectively). Cineworld Cinemas also leads in terms of admissions where it contributed 27.3% of all UK admissions (2011: 28.2%). In terms of number of cinemas and screens, Cineworld Cinemas has been the second largest operator in the combined UK and Irish for a number of years behind Odeon UCI.

City Screens Limited and its subsidiaries form the "Picturehouse" group of cinemas. Most of the cinemas trade under the Picturehouse name. The box office market share in the UK and Irish markets in 2012 was 1.7% (2011: 1.5%) which makes it the largest of the non-multiplex cinema chains.

The rest of the market is represented by smaller multiplex operators and independents which tend to operate non-multiplex cinemas (less than five screens). Cineworld Cinemas has a small presence in Ireland with one, albeit significant, cinema in Dublin which is one of the top ten largest cinemas in the combined UK and Irish market in 2012 by gross box office (Rentrak/EDI).

2012 saw consolidation in the UK market with Odeon acquiring the BFI Southbank and a site from AMC, Vue acquiring the Apollo cinema chain and Cineworld acquiring Picturehouse. Before this the UK market was largely constant for a number of years though

the ownership of Vue changed in late 2010. There are significant barriers to entry, both through acquisition and organically. Competition law limits the potential for major consolidation in the industry. The rate of new cinema openings has been falling in recent years, partly due to the limited number of new retail and leisure development opportunities and the long time to bring developments to fruition. This has been exacerbated more recently due to reduced funding for developers in the present financial climate though confidence has started to improve and a more visible pipeline of new sites in future years is emerging.

Box office revenue in 2012 in the combined UK and Irish market increased 2.9% to £1.17bn (Rentrak/EDI), whilst UK admissions fell 1.4% to 170m (Cinema Exhibitors Association). Overall cinema has remained resilient in the prevailing economic and consumer environment. The low price of going to the cinema compared to other forms of entertainment and leisure and the desire for escapism have remained key attractions.

Approximately 80% of screen advertising revenues in the UK during 2012 were generated by a separate business called Digital Cinema Media Limited ("DCM") which is jointly owned by the Cineworld Group and Odeon UCI. In addition to Cineworld, Picturehouse and Odeon UCI, DCM's clients also include Vue (from the beginning of 2011) and a number of other smaller cinema operators. Its only and smaller competitor is Pearl and Dean, which represents the Empire cinema chain and a collection of other smaller operators.

Underpinning the overall success of the cinema industry in 2012 was the strong line up of films and the completion of conversion to digital projection. The number of films released in the 3D format at 37 was the same as that of 2011 and is expected to remain broadly constant in 2013.

# Our UK and Irish Presence

**27%**  
of all UK  
admissions

**60**  
Picturehouse  
screens

**21**  
Picturehouse  
cinemas

**80**  
Cineworld  
cinemas

**818**  
Cineworld  
screens

**UK No.1**  
By box office

★ Cineworld cinemas  
○ Picturehouse cinemas

# The Business Model

The key driver of our business is customers visiting our cinemas to see feature films. The majority of mainstream and popular films are produced by a small number of studios in the US.

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.

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

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

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

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

The principal direct costs to the business are film rental paid to the film distributors for the rights to show the films and the purchase costs of food and drink sold to customers. The main cinema operating costs are staff salaries and wages, energy, repairs and maintenance and property related costs.

With the addition of City Screens Limited and its subsidiaries (trading as "Picturehouse") on 6 December 2012, the Group now operates 101 cinemas, under two separate cinema brands, which operate in different markets that are differentiated in terms of film content, the style and appeal of the individual cinemas and the food and beverage offered. This, in turn, influences how the different customer groups use the cinemas and their perception of their cinema going experience.



**High Quality of Venue**



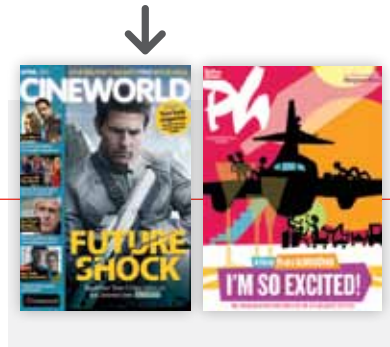
**High Quality of Film Offer**



**High Quality of Retail Offer**



**Operational Delivery**



**Sales and Marketing Delivery**



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

### Cineworld Cinemas

- Multiplex cinema chain with 77 of 80 cinemas being multiplex cinemas (cinemas with five or more screens)
- With an emphasis on providing mainstream and popular films which appeal to a wide range of audience including families, young adults and children
- The cinemas are more functionally designed to better serve high customer volumes and are often located in out of town or edge of town leisure and retail developments with parking facilities
- Customers are offered a more uniform level of experience in terms of film choice, seating and retail, of which popcorn and soft drinks form the core retail products

Cineworld Cinemas provides more screens to show a wider choice of films to appeal to a variety of customer groups and the provision of an enhanced range of product and services.

Cineworld Cinemas' policy aims to ensure that its headline ticket prices remain competitive at local level. This is supported by discounted price structures covering off peak (particularly mid week) and prices targeted at particular sections of the customer base such as pensioners and students.

Cineworld Cinemas operate a subscription service called "Unlimited", which is a fixed monthly (or annual) subscription which enables customers to watch as many 2D films at Cineworld cinemas as they wish. Cineworld Cinemas is currently the only cinema operator in the UK and Ireland to offer this service and to date the service has over 320,000 members.

Cineworld Cinema sites are acquired on leaseholds of typically 25 years and property related costs consist of rent, rates and service charges.

### Picturehouse

- Arthouse specialist cinema chain with 21 cinemas, of which 19 have fewer than five screens
- Whilst blockbuster films may be shown at these cinemas, non-mainstream and specialised films are central to its programme
- The cinemas tend to be located in urban areas with a high student, affluent and diverse city dwelling adult orientated population
- The cinemas often have their own individual styles and provide a unique ambience in contrast to that of a multiplex cinema
- Food and drink is a key differentiator that will be specifically tailored to the local market and may include bars and cooked food which cater to a more mature customer
- Typical Picturehouse customers will tend to visit as a social occasion or as a cultural outing rather than purely to view films and therefore look for a more personal and intimate cinema going experience

Picturehouse operate a separate annual membership scheme by which subscribers pay an annual fee in return for three free tickets, discounts across ticket, food and drink purchases and third party discounts at Picturehouse cinemas. The service currently has over 100,000 members.

Picturehouse cinemas were mainly acquired on a leasehold basis with a few sites being freeholds.



**The Customer**



**Admissions and Revenues**



**"A Great Cinema Experience"**

**Repeat visits**



## Our Strategic Framework

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.

### Our Vision

To be the  
favourite  
cinema  
chain

### Our focus

**Put our customers at the heart of everything we do**

To know our customers and understand what they want in order to increase attendance, resulting in increased revenues, retail spend per customer and other revenue streams

**Deliver a great cinema experience**

We want our customers to have a great experience in our cinemas whilst enjoying comfortable, safe and clean cinemas

**Develop our people, effectiveness and efficiencies**

To develop teams and live to our values of creating a culture with a passion for People, Innovation and Achieving, always focusing on the customer and delivering a great cinema experience

**Grow our estate**

To grow through selective new openings and acquisitions

## Our Strategy

### Highlights

- MyCineworld now has over 2.4m members
- Unlimited now has over 320,000 members
- Newly designed website to help capture more data about our customers to aid our CRM programme with over 65m visits recorded in 2012

my★cineworld

- Two new Starbucks opened with more planned for 2013
- We now operate eight I-MAX screens
- Trialling new 4D Motion technology in 6 cinemas with D-Box seats



- One of the most comprehensive training programmes in the industry through our Academy
- We completed the installation of new ticketing and ancillary systems
- We undertook a review of workload and introduced till sharing, a new audit process and service pilots to improve the efficiency of our teams

★ THE  
**ACADEMY**  
premiere management training

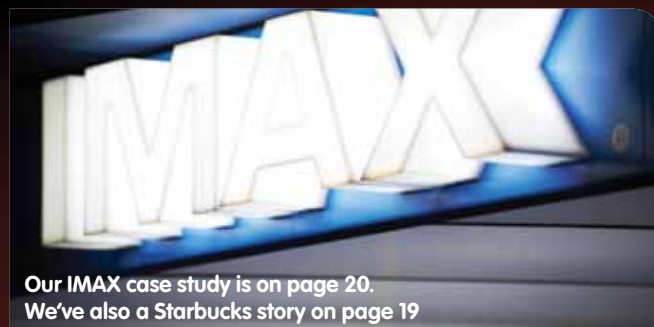
- Completed the build of our new 7 screen cinema in Aldershot
- Acquired Picturehouse
- Four new cinemas planned for 2013



### Further reading



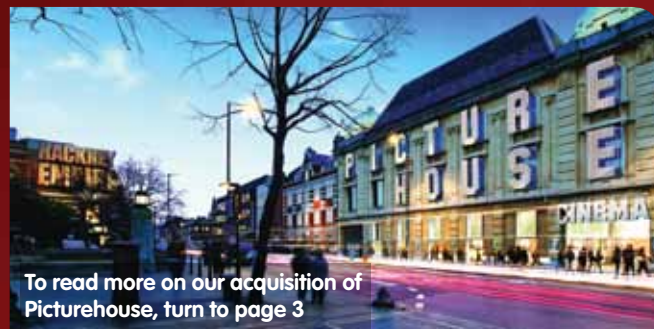
Turn to page 15 for a MyCineworld case study



Our IMAX case study is on page 20. We've also a Starbucks story on page 19



Turn to page 23 for a Cineworld Academy case study



To read more on our acquisition of Picturehouse, turn to page 3

# Our Strategic Progress

Our focus on the customer and the cinema experience remains as important as ever and forms a significant part of our Customer First Strategy.

## Our Strategy

**Put our customers at the heart of everything we do**  
**To know our customers and understand what they want in order to increase attendance, resulting in increased revenues, retail spend per customer and other revenue streams**

## Action undertaken in 2012

We continued to provide the widest range of films and alternative content of the UK's major exhibitors.

We continued to offer great value with low ticket prices on Saturday mornings and on Tuesdays and provided targeted retail offers and promotions.

Growing the number of members in the Unlimited subscription programme by 14%.

We removed booking fees and introduced a 10% discount online for MyCineworld customers across the whole Cineworld cinemas estate, which helped to deliver more admissions than any other UK cinema operator.

The new CRM system has started to capture information about our Unlimited and MyCineworld customers' behaviours.

The completion of conversion to digital projection has aided the expansion of the range of alternative content screened this year enabling DCM to launch its digital advertising offer in October, providing greater flexibility in our screen advertising offer.

We have continued to develop venue hire as a revenue stream with a range of customers from major corporates to church groups and private individuals.

## The future

We will continue to show a wide range of film and alternative content.

We will continue to use pricing to improve capacity utilisation and encourage cinema going and develop our product ranges and selected promotions that appeal to different consumer groups.

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

We will be using our newly implemented CRM capabilities to develop ways to communicate with and inform our customers and to drive frequency and value.

We will capitalise on the flexibility digital provides to improve our offer to advertisers to reduce lead times and to improve the targeting of adverts.

We will continue to develop our offers and seek an even wider range of customers.

**Deliver a great cinema experience**  
**We want our customers to have a great experience in our cinemas whilst enjoying comfortable, safe and clean cinemas**

We have invested in eight IMAX screens, D-Box seats and new Starbucks franchises at Sheffield and Crawley as part of delivering an enhanced experience for customers who come to our cinemas.

We re-launched our customer website, streamlining the booking process and further encouraging more customers to book online.

We put more of our team members back onto the foyer floor to help create a more helpful service which has been reflected in improvements in our recent customer satisfaction scores.

We have plans to install more IMAX screens and provide the Starbucks offer at more sites during 2013 and beyond.

We will continue to seek to reduce queues in the foyer and improve the customer experience before entering the auditorium.

We will continue to use staff in the foyer to enhance further the customer experience at our cinemas.



## Our Strategy

### Develop our people, effectiveness and efficiencies

To develop teams and live to our values of creating a culture with a passion for People, Innovation and Achieving, always focusing on the customer and delivering a great cinema experience

## Action undertaken in 2012

We undertook a survey to establish employee brand values and launched a new staff intranet.

We supported our teams' development with one of the most comprehensive training programmes in the industry, covering every level of the Cineworld Cinema operations from The Apprenticeship programme, to the postgraduate Diploma in Leadership and Management for high performing managers.

We completed installation of new ticketing and ancillary systems.

We undertook a review of workload and introduced till sharing, a new audit process and service pilots to improve the efficiency of our teams.

## The future

Learning and development is core to our strategy of developing and keeping hold of great people. We will continue to invest in our people.

We will continue to explore ways to focus more on our customers' experience in our cinemas.

### Grow our estate

To grow through selective new openings and acquisitions

We completed our acquisition of Picturehouse and opened a new seven screen cinema in Aldershot as planned.

We continued to talk to developers about potential new sites to ensure that we are aware of as many development opportunities as possible and to be their first choice of cinema partner.

In 2013 we plan to open a nine screen cinema in Wembley, six screen cinema in St Neots, a ten screen replacement cinema in Gloucester and the operation of the IMAX in Glasgow Science Centre.

We will continue to identify large and smaller markets for the Cineworld, Picturehouse and Screening Rooms brands, which are uniquely placed to target any audience profile.

We are well placed to achieve our stated ambition of growing our estate by 25 sites by end 2017.

We will continue to keep abreast of acquisition opportunities at home and overseas.

# Chief Executive and Chief Financial Officers' Business Review



**Stephen Wiener**  
Chief Executive Officer



**Philip Bowcock**  
Chief Financial Officer

## Performance Overview

As City Screens Limited and its subsidiaries ("Picturehouse") only became part of the Group on 6 December 2012 and therefore was consolidated for the final 22 days of 2012, the following commentary focuses primarily on the performance and activities of the Cineworld Group excluding Picturehouse, except where stated.

	52 week period ended 27 December 2012		52 week period ended 29 December 2011 Total	
	Group Total	Picturehouse Total	Cineworld Total	2011 Total
	£m	£m	£m	£m
Admissions	48.0m	0.2m	47.8m	48.3m
Box office	252.6	1.0	251.6	242.1
Retail	82.8	0.5	82.3	81.6
Other Income	23.3	1.0	22.3	24.3
Total revenue	358.7	2.5	356.2	348.0

Total revenue in 2012 was £356.2m an increase of 2.4% on the prior year (2011: £348.0m). Cineworld's box office increased 3.9% to £251.6m. Average ticket price per admission increased by 5.0% to £5.26 (2011: £5.01) whilst total retail revenues of £82.3m were marginally ahead of the previous year (2011: £81.6m). Other revenues fell by 8.2% to £22.3m (2011: £24.3m).

Cineworld's box office market share in the combined UK and Irish market was 24.7% (2011: 24.8%) making it the second largest cinema operator in the UK and Ireland, whilst it remained the largest operator in the UK with a box office market share of 25.9% (2011: 26.1%) (All market data supplied from Rentrak/EDI). Cineworld's admissions were 0.5m or 1.0% less than the prior year.

## Box Office

The principal income for Cineworld is box office revenues. Marginally lower admissions in the year combined with a better average ticket price contributed to a 3.9% increase in box office sales to £251.6m. This equated to a 2.2% increase on a gross box office basis (inclusive of VAT); whilst the UK and Ireland

cinema industry as a whole was up 2.8% against the previous financial year (Source: Rentrak/EDI).

The average ticket price per admission increased by 5.0% to £5.26 (2011: £5.01). This increase resulted in part from annual price increases and a higher proportion of adults being admitted at full price, reflecting the film mix. These factors were partly offset by a lower level of 3D business, a similar level of take up of concessionary and discounted tickets and the 10% discount on tickets booked online via MyCineworld which was introduced in March 2012. The average net ticket price (excluding VAT) of 3D was £6.74 compared to 2D of £4.78. Cineworld continued to offer its customers good value with the lowest average ticket price of any of the major UK cinema groups. In the current economic climate there remained a notable proportion of customers who took advantage of our lower mid week ticket prices. In 2012 approximately 26.5% of admissions were for Tuesday and Wednesday performances (2011: 27.5%).

The outstanding film of 2012 was "Skyfall", which to date has grossed in excess of £100m. Alongside "Skyfall", "The Dark Knight Rises" and "Marvel Avengers Assemble" were the two other films which exceeded £50m each in the UK and Ireland box office. There were also strong performances from blockbusters such as "The Hobbit: An Unexpected Journey", "Twilight Saga: Breaking Dawn – Part 2", "Ted" and "Ice Age: Continental Drift", which all performed above or in line with industry expectations. Excluding Picturehouse, Cineworld largely maintained its box office market share in the UK in 2012. This was despite the acquisitions of cinemas by both Odeon and Vue in the year and the dominance of blockbuster films which traditionally favour the programming strategies of Cineworld's main competitors. 3D films continued to contribute a sizeable proportion of overall film business with 37 films released in 3D the same number as in 2011. The 3D format continued to remain popular, although some value-seeking customers and particularly families, had a preference for the 2D format. Film studios continue to be selective over what films are released in the 3D format, concentrating on proven themes involving action, fantasy and animation and appealing to the older teenage and young adult

audience. This is resulting in the number of 3D titles and the proportion of national box office stabilising at 22% (2011: 23%). The most notable 3D films in 2012, and examples of this trend, were "Marvel Avengers Assemble", "Ice Age: Continental Drift" and "The Amazing Spider-Man".

We remained true to our strategy of offering customers the broadest range of films on the market. There were a number of smaller and mid range films that performed well during the year including: "End of Watch", "Katy Perry: Part of Me", and "Cabin in the Woods". As is to be expected, because of our film programming strategy, we achieved higher individual market shares on these films 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%. Popularity of this genre remains high with films such as "Jab Tak Hai Jaan" and "Ek Tha Tiger" released during the year. In addition, other specialised and foreign language films were played, such as "The Raid". We were also the exclusive UK exhibitor for some Polish titles.

#### **Alternative Content**

We continued to make good progress during the year in developing our alternative content offering which has been made possible by our digital conversion programme. In the field of the performing arts, our core live opera and theatre product came from the New York Metropolitan Opera, the National Theatre and the Royal Opera House, all of which were well attended. Cineworld Cinemas also showed some operatic performances from Glyndebourne during the year for which Picturehouse acted as distributor. As a one-off event, the men's and women's singles finals of the tennis at Wimbledon were shown again live in 3D and we also showed live boxing. Looking forward, we will be trialling a variety of live events from The Comedy Store season to a live tour of the Pompeii exhibition at the British Museum and now have the technical capability to screen other live events at short notice. The scope of alternative content is expanding though it remains a niche offering and a relatively small contributor to box office revenues.

#### **Retail**

Food and drink sales to our customers are the second most important source of revenue and represent 23% of total revenues. Total retail revenues were marginally better at £82.3m (2011: £81.6m).

Net retail spend per person improved 1.8% in the year to £1.72 (2011: £1.69) reflecting the targeted promotions and the film slate. As expected, our customers remained highly value conscious given the tough consumer environment and we successfully responded with a series of value initiatives such as the "Bargain Tuesday/Orange Wednesday Combo" and the "Family Combo" offers as well as the "Christmas Gift Box". We introduced discounts of 10% for Unlimited subscribers with 25% discounts on most products for all premium members (those with more than 12 months' membership). We also ran a number of successful partnership initiatives with suppliers involving special price deals and product sampling.

During the year we made progress in developing our coffee offer. At the end of March we opened a full Starbucks coffee franchise at our Sheffield cinema and a second franchise at our Crawley cinema in November. Both outlets have traded above expectations and continue to grow revenues. As a result we have plans to provide Starbucks coffee in more locations in 2013 through a varied range of offers from full franchises to single counter service offers.

#### **Other Income**

Other Income includes all other revenue streams outside box office and retail and represents about 6.3% of total revenues. It fell 8.2% to £22.3m (2011: £24.3m).

The largest single element of Other Income is screen advertising revenue. Trading at Digital Cinema Media Limited ("DCM"), our joint venture screen advertising business formed in July 2008, was marginally better than the previous year but continued to reflect the difficult trading environment within the wider advertising industry. The final quarter of the year benefitted significantly from the advertising opportunities from "Skyfall".

DCM's primary function is to sell advertising time on cinema screens on behalf of Cineworld Cinemas, Picturehouse and its other clients. It also engages in related promotional work between advertisers and cinemas. The management team at DCM has been driving operational efficiencies and effectiveness and, during the year, has been working on repositioning the operations to handle the digital format. All the three major circuits, Cineworld, Odeon and Vue became fully digitised during 2012, providing DCM the opportunity to increase scale and potentially open up new segments of the market.

Other Income included sales of 3D glasses, ticket bookings and theatre hires. Much of the fall in income was due to the removal of booking fees which coincided with the relaunch of the MyCineworld online membership programme in March 2012. Sales of 3D glasses continued to soften, which reflected fewer 3D admissions compared with the previous year and more customers re-using their purchased glasses, which demonstrate the success of our initiative to encourage their re-use rather than disposal. In 2012, approximately 50% of customers attending 3D performances were still purchasing 3D glasses, which was a reduction on the 2011 level of about 55%.

#### **Picturehouse**

On 6 December 2012 the Group acquired the Picturehouse cinema chain for £47.3m. It comprised of 21 cinemas focusing on a different audience from Cineworld Cinemas, with the cinemas being smaller (all have five or fewer screens) and more individual.

Whilst blockbuster films may be shown at these cinemas, non-mainstream and specialised films are central to its programming as an arthouse cinema chain. The cinemas tend to be located in urban areas with a high student, affluent and diverse, adult orientated population. Food and drink is a key differentiator and some have bars and food operations which

form a significant proportion of a cinema's total business. Cinemas tend to have their own individual styles and provide a unique ambience compared with that of a multiplex cinema and appeal to students and a more mature audience that requires a different retail and film choice. Typical Picturehouse customers will tend to visit as a social occasion or as a cultural outing rather than purely to view films and therefore require a more personal cinema going experience.

The market in which Picturehouse operates is distinct to those of Cineworld Cinemas. There is growing demand from older and from more affluent cinema goers and Picturehouse is well positioned to capitalise on this more specialised sector of the cinema market under its own brand and management.

Since acquisition, Picturehouse has traded in line with expectations. As stated at the time of announcing the acquisition, Picturehouse continues to be run under separate management who will develop the brand and pipeline of new cinemas.

While Cineworld Cinemas and Picturehouse are complementary brands which operate in separate markets, common ownership will allow the realisation of a number of valuable synergies. The Picturehouse acquisition is a sign of our strategic intent to grow the Group and we will continue to look for suitable expansionary opportunities that are in the best interests of our shareholders.

The acquisition of Picturehouse is currently under review by the Office of Fair Trading. The review is expected to be completed by the end of the first half 2013.

#### **Other Cinema Expansion**

One of the key strategic priorities of the Group remains expansion. We continue to maintain the financial capability to pursue such opportunities aided by the cash generative nature of our business model.

In October 2012, as scheduled, we opened a seven screen cinema in Aldershot, which increased Cineworld Cinemas' estate to 80 cinemas with 818 screens. We have plans to open four new cinemas in 2013 under the Cineworld brand. Work has begun on site for a nine screen cinema in a new development at Wembley and we are on schedule to commence work on a six screen cinema in St Neots, a ten screen replacement cinema in Gloucester and we have recently reached an agreement to take over the existing IMAX cinema at the Glasgow Science Centre.

Whilst the uncertainty over development financing and timing of new projects continues, we have seen improvements in confidence in the property market during the year with renewed interest in existing proposals as well as new plans and ideas being tabled. Our strong financial position and our good track record of driving high footfalls through our cinemas make us an attractive partner for property developers. We have over 14 further development sites signed or in legal negotiation and have a good pipeline of further opportunities to achieve our target of 25 new Cineworld Cinemas between 2013 and 2017.

#### **Initiatives and Developments**

As part of our strategy to improve the customer experience significant work has happened behind the scenes in improving the efficiency of the transaction process for our customers and introducing new technology. The internet and mobile technology have been a key focus of our attentions over the past few years – where we have been working on integrating marketing, booking and ticketing activities. At the end of the summer of 2012, we completed the upgrade of our cinema point of sale system and supporting systems covering finance and customer relationship management. These new systems will increase our transactional capabilities and support better communication with more of our customers.

The Unlimited programme is one of the pillars that underpin our strategy of growing other revenues and admissions. At the end of 2012, there were almost 320,000 members (2011: 280,000), a figure which has since increased further. The Unlimited programme brings to the Group the financial benefits of regular subscription income thereby reducing the level of fluctuation in our revenues contributing over 17% of total box office in 2012. 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 allows us to offer a wider range of films than our competitors. As a result, we continued to enjoy significant market share among the smaller, less mainstream films during 2012.

The Group introduced a number of customer related initiatives in line with our stated strategy. On 16 March 2012, Cineworld was the first major cinema operator in the UK to abolish online booking fees. Research showed the fee to be a barrier to booking in advance and it was unpopular with our customers. This innovation was accompanied by the launch of a 10% reduction in the price of tickets for booking online through MyCineworld and membership has since increased to over 2.4m members by the end of the year.

The growth of MyCineworld is an important part of our strategy to engage further with our customers. It will enable us to improve our customer retention and help us to encourage more frequent visits to our cinemas. We have begun collaborative work with film distributors to market films to the MyCineworld base with campaigns for "Dark Knight", "The Hobbit" and "Les Miserables". Furthermore, by transferring bookings online, we aim to improve customer service by reducing queues at the box offices and to convert more space to other activities which will improve the customer experience at our cinemas and help drive incremental revenues. The addition of new sites will facilitate the expansion of our Unlimited and MyCineworld propositions into new locations, thereby growing and consolidating our business further.

Activity on our consumer website continued to increase year on year, with 2012 recording over 65m visits. This performance has enabled our website to remain in the top 40 most visited websites in the UK (as reported in the IMRG Experian Hitwise Hot Shops List) for the year. In addition, our successful mobile enabled web





## Driving increased frequency

Following a successful trial in Scotland for over a year, on March 16th 2012 Cineworld became the first UK Cinema group to remove booking fees across the circuit and reduce its prices online by 10% for customers who register with MyCineworld. The programme, along with Unlimited, is key to our 'Customer First' strategy of better understanding our customers to provide them with an improved customer experience. MyCineworld allows us to drive increased frequency by targeting customers with tailored, relevant and timely communications and offers. The growth of the customer base has been significant with a 140% rise in our membership base to over 2.4m in 2012. And by encouraging customers online we are improving the customer experience in our foyers by reducing queues; online admissions now exceed 20% which in turn is allowing Cineworld to invest in improving the cinema experience in our foyers, introducing Starbucks and other opportunities to increase dwell time and spend.

A large, dark silhouette of a hand reaching out from the left, holding a glowing yellow orb. A yellow biplane is flying in a circular path around the orb. In the background, there is a dark silhouette of a person's head and shoulders, and another yellow biplane is flying towards the right. The overall scene is set against a dark grey background with stylized clouds at the bottom.

140%

Membership growth

# UNLIMITED

## Membership goes from strength to strength

Our Unlimited membership scheme is unique within the UK cinema industry. Customers can watch Unlimited 2D movies for a small monthly subscription and pay a small uplift for 3D, IMAX or D-Box movies. Membership has now increased to over 320,000 subscribers which means Cineworld has a high volume of regular customers to all types of film – which supports our strategy of showing the widest range of content of all the major UK cinema chains. In 2012 we successfully re-launched Unlimited delivering a re-design of the programme and a new premium card with increased benefits for customers who stay with the scheme over 12 months to encourage increased loyalty.

320,000

Members



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booking service is now complemented by our applications ("apps"). During the year, 1.8m iPhone apps and 340,000 Android phone apps were downloaded reflecting customers' desire to book wherever they are.

During 2012, we increased the number of cinemas offering IMAX screens to eight. This has raised our profile in the provision of high end cinema viewing with the recognised brand leader which attracts a premium ticket price. We have plans to install IMAX at more cinemas. In addition we ran a pilot scheme with the D-Box seating concept at six cinemas. The D-Box seats provide additional sensory experiences for customers and a premium is charged over the applicable ticket price.

### Investment in Digital

All of Cineworld Cinemas' estate was converted to digital projection by the end of the first half of the year. As the financial benefits to film studios of digital were substantial, they offered incentives to cinema exhibitors to help fund the conversion. In June 2010 Cineworld entered into an agreement with Arts Alliance Media ("AAM") whereby AAM utilises its Virtual Print Fee ("VPF") agreements with film distributors to recover financial contributions over a maximum period of ten years, on behalf of Cineworld, from the film studios. Under the AAM deal, Cineworld acquired the digital projectors directly from a third party and retained full control over the timing of their purchase and over their installation and operation.

Over approximately seven years, VPFs are expected to cover a substantial proportion of the total acquisition cost of about £40m. The VPFs are accounted for as a reduction in the cost of film hire thereby benefiting EBITDA. To date the overall VPF process between Cineworld, AAM and the film distributors has operated successfully. We will continue to receive VPFs over the contract period to recover most of the cost of investment.

### People and Diversity

Our people are core to the success of our business and remain a strategic priority. Developing and retaining people help to make Cineworld a great place to work. We continued to invest in our people throughout the Group. Our people have opportunities at all levels from Apprenticeships, through the Step Up programmes (helping to improve staff succession) up to The Academy programme for high potential cinema managers. To date approximately 85% of cinema managers were promoted from internal applicants.

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

### Key Business Relationships

Cineworld Cinemas has worked hard at developing good working relationships with a wide range of film studios, both major and

independent. Our focus on driving cinema admissions and on providing our customers with a wide range of films through our film strategy has resulted in many opportunities for us to work with film studios on simplifying the film buying process and on promoting smaller films to a wider audience. We also work closely on combating film piracy, in association with the Cinema Exhibitors' Association and The Federation Against Copyright Theft.

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

Our successful participation in Tesco's Clubcard loyalty programme continued to thrive and during 2012 we remained the only cinema partner. During the year, we also became the exclusive cinema gift card partner with Morrison's. These partnerships help to promote and reinforce Cineworld Cinemas brand profile nationally.

### The Environment and Health and Safety

Being a multi-site business, the Group is conscious of its total energy consumption and the amount of waste materials generated, and is actively working to reduce both energy usage and the quantity of waste materials produced that cannot be recycled. During 2012, there was a continued focus on raising energy awareness at cinema sites with the aim to promote best practice and to reduce energy usage through better housekeeping and operating more efficiently.

Collectively all the measures undertaken by Cineworld Cinemas during 2012 to limit gas and electricity consumption reduced its carbon footprint across 78 comparable sites by 3.6% in 2011/12 (2010/11: 5.5% across 73 sites). To continue the process during 2013, seven sites have been selected for trial projects with remote energy building management systems and voltage optimisation with savings projected to be over 15% per site.

With over 47m customer visits, the safety and welfare of Cineworld's customers, staff and contractors are of prime importance. Annual cinema audits covering Fire, Food and Health and Safety are undertaken on an unannounced basis in order to reflect the true operation of health and safety at each site. Overall, the continuous focus on health and safety in 2012 have resulted in further improvements in site standards compared to last year.

### Key Trends and Factors Potentially Affecting the Future

The future success of the Group in 2013 will principally remain dependent on the strength of the film releases during the year. Sequels and franchises will continue to contribute a significant number of the higher profile blockbuster films. The "Harry Potter" series has ended but has been replaced with "The Hobbit" for the next two years. Similarly "The Twilight" series has been followed

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by "The Hunger Games" as an alternative for the same female and teenage audience. Many such films outperform the original film or concept, so the film studios will continue to look to capitalise on proven successful formulae. The outstanding success of "Marvel Avengers Assemble" will provide further impetus to advance the related characters including "Iron Man", "Thor", "Captain America" and "The Hulk". Resurrected past characters and franchises in 2012 have proven successful such as "Men in Black 3" and "Spiderman". The film release programme for 2013 includes an increased number of potential (albeit smaller) blockbusters with new and existing franchises and sequels. In the past, Cineworld has typically achieved a higher market share in such smaller blockbusters and mid range films than on the larger blockbusters such as "Harry Potter" and "Skyfall".

While initial limited trials of video on demand have been unsuccessful in the past and with no notable trials conducted in 2012, such initiatives are expected to continue, which may reopen the debate on the current theatrical release window in which new films are only shown in the cinema before being released via other media.

The non US markets for Hollywood film studios continue to grow faster than the US domestic market. The UK is an important market for the US studios and the natural link in the marketing chain of English language films. Increasingly blockbuster films are being filmed in more international locations and featuring more varied international cultures, which used to be confined to films such as "James Bond", to help increase the appeal to audiences in the UK. Equally, the success of UK films such as the Bond franchise and the "The King's Speech", together with the stable level of cinema going in the UK should further encourage Hollywood to support both locally produced product and product that appeals to the UK and Irish market.

It is anticipated that 2013 overall will see a similar number of 3D films compared to 2012. Studios have also started to convert some older film titles to 3D, thereby adding to the range of 3D film choice. With completion of our conversion to digital projection in 2012, we are well placed to capitalise on this product. The price differential between 3D and 2D films is expected to continue and, should help support the overall revenue levels. Films based on action, fantasy and animation and appealing to an older teenage and young adult audience, such as "Marvel Avengers Assemble", have had the highest take up of 3D whilst those which appealed to younger children tend to attract a lower proportion of 3D business. However falling 3D production costs should help to ensure such films continue to be produced in the 3D format.

Results have shown that there are opportunities to serve customer demand for more specialist formats such as IMAX and

D-Box and, whilst still in their infancy, films produced in High Frame Rate and 4K definition such as "The Hobbit: An Unexpected Journey" and "Skyfall" may gain in popularity in the future. All of which will encourage further investment.

Within alternative content, plays and opera will continue to provide solid business through established providers such as the New York Metropolitan Opera and the National Theatre. Otherwise the source of alternative content still remains fragmented. Stabilisation and consolidation amongst suppliers should increase the range of content, improve the operational delivery and result in financial savings. The completion of Cineworld Cinemas' conversion to digital projection will improve utilisation of screens for a variety of non-feature film content and improve the ability to bring content to the screen in shorter time. Revenues from alternative content are anticipated to grow further, having grown significantly from 2011, albeit from a small base.

The general economic and consumer environment is expected to remain uncertain for the foreseeable future and will continue to present trading challenges. The higher ticket prices charged on 3D films will invariably mean that some segments of the customer base will choose to see 2D for cost reasons. We expect that the strong mid week business enjoyed through "Bargain Tuesdays" and "Orange Wednesdays" promotions will continue.

Demand in the wider advertising industry is anticipated to remain challenging, which would be reflected in cinema screen advertising. However full digital conversion by DCM's major exhibitor clients (Cineworld, Odeon and Vue) in 2012 is anticipated to improve DCM's competitive position and support its objective of gaining a larger share of advertisers' budgets especially retail, which is a sector largely unexploited in cinema advertising.

Finance for many continues to be challenging which could delay the development of new cinemas, though more developments are beginning to gain momentum. Nevertheless part of the Group's strategy is to continue expanding our businesses, through acquisition and organically, aided by the Group's strong financial position. The acquisition of Picturehouse provides a new and additional channel for expansion in the arthouse market under the Picturehouse brand and the existing pipeline of new multiplex cinemas is also increasing.

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





## Improving our retail offer

In March 2012 Cineworld launched their first licensed coffee shop in partnership with Starbucks at Cineworld Sheffield. This is a very busy site on our circuit with over 20 screens. Delivered on time and to budget, the resulting offer immediately started trading well ahead of expectations at almost twice the forecast level. As a result, we opened a second Starbucks in Crawley in November 2012, again trading well ahead of expectations.

The success of these sites shows the strength of the combination of high footfall cinema and a well-known coffee brand. We are currently working closely with Starbucks on the roll out of further stores and single counter service offers to increase the number of locations where Starbucks is available.



# IMAX<sup>®</sup>

## Delivering a great cinema experience

In October 2011, Cineworld signed their first contract for three IMAX screens within the estate to bring the world's most immersive cinema experience to our customers. The first of these opened in December 2011 in Cineworld Edinburgh followed by Sheffield and Crawley in March 2012. All three quickly exceeded expectations with Sheffield being the most successful new IMAX screen globally in 2012 (out of 122) and 17th overall out of over 700 screens in only ten months of trading! Following such success, we signed a further agreement for an additional five sites in Cineworld Birmingham, Enfield, Dublin, Nottingham and Ipswich, all of which opened successfully before the end of 2012 and are trading well. We are planning to bring the IMAX experience to more sites in the future.

8

Cineworld cinemas  
have an IMAX screen

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**Financial Performance**

	52 week period ended 27 December 2012			52 week period ended 29 December 2011
	Group Total	Picturehouse <sup>2</sup> Total	Cineworld Total	Total
	£m	£m	£m	£m
Admissions	48.0m	0.2m	47.8m	48.3m
Box office	252.6	1.0	251.6	242.1
Retail	82.8	0.5	82.3	81.6
Other	23.3	1.0	22.3	24.3
Total revenue	358.7	2.5	356.2	348.0
EBITDA <sup>1</sup>	67.1	0.5	66.6	63.3
Operating profit	44.2			42.6
Financial income	1.6			1.6
Financial expenses	(8.2)			(9.7)
Net change in fair value of cashflow hedge reclassified from equity	1.0			(1.1)
Net financing costs	(5.6)			(9.2)
Share of loss from joint venture	(0.1)			–
Profit on ordinary activities before tax	38.5			33.4
Tax on profit on ordinary activities	(10.8)			(9.5)
Profit for the period attributable to equity holders of the Company	27.7			23.9

- 1 EBITDA is defined as operating profit before depreciation, impairments, reversals of impairments and amortisation, onerous lease and other non-recurring or non-cash property charges, transaction, pensions, refinancing and reorganisation costs.  
2 Picturehouse results consolidated for 22 days covering 6 December 2012 to 27 December 2012.

The following commentary on the profitability, cash flow and balance sheet focuses on the Cineworld Group including Picturehouse, except where stated.

**EBITDA and Operating Profit**

Group EBITDA was up 6.0% at £67.1m (2011: £63.3m) and was achieved through higher revenues. Virtual print fee income was higher than the previous year with more digital prints being shown due to more digital projectors installed (the conversion having been completed during the year) which in turn helped to increase the number of film titles played. These were offset by an increase in film hire costs on box office revenues due to the mix of film product, lower sales of 3D glasses and the removal of the booking fees in the Cineworld cinemas. In addition there were higher energy and property costs as well as general increases in other operating costs. Operating profit at £44.2m was 3.8% higher (2011: £42.6m).

Operating profit included a number of non-recurring and non-trade related costs. There were transaction and reorganisation costs of £1.1m which related to the Picturehouse acquisition. The charge of £1.6m under onerous leases and other non-recurring charges comprised charges to onerous lease provisions due to changes in future trading assumptions. An asset impairment review resulted in £0.3m asset write downs at weaker performing cinemas. Other non-recurring income relates to a credit of £2.0m in respect of VAT reclaims, and there was a £0.4m charge in respect to

changes to technical assumptions in valuing the defined benefit pension scheme.

The total depreciation and amortisation charge (included in administrative expenses) in the period of £21.5m was higher than last year (2011: £18.9m), reflecting the higher expenditure on digital projectors to date and £0.8m of accelerated depreciation of replaced assets.

**Finance Costs**

The net financing costs of £5.6m were markedly lower than prior year of £9.2m. The overall charge included £1.0m credit on the expiry of one of three interest rate swaps in May which necessitated a reclassification of the closing derivative value from equity to the income statement. The expiry of the swap also resulted in a lower overall interest rate going forward and, together with proactive cash management during the year, produced a reduced interest expense of £8.2m compared with the prior year of £9.7m. The financial expenses comprised of £4.9m in relation to interest on the bank loans and the balance of the financial expenses were non cash amounts arising from the amortisation of financing costs, the unwinding of discount on onerous leases, the pension scheme and from the finance lease. The financial income of £1.6m reported in 2012 and 2011 was primarily from the actuarial valuation of the returns on the defined benefit pension plan assets.



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### Earnings

Overall profit on ordinary activities before tax was £38.5m, 15.3% higher than 2011 of £33.4m. Basic diluted earnings per share amounted to 19.1p (2011: 16.7p). Taking account of the one-off, non trade related items described above, totalling £3.2m and the credit of £1.0m relating to the expiry of an interest rate swap (included in net financing costs), the adjusted pro-forma diluted earnings per share were 21.2p (using a normalised tax rate of 24.5%) compared with 2011 of 19.2p. The weighted average number of shares in issue in 2012 was 143.1m including 7,270,575 shares issued during the year.

### Taxation

The overall tax charge was £10.8m giving an overall effective tax rate of 28.0% for the year (2011: 28.4%) which reflects the declining trend of the headline corporation tax rate. The corporation tax charge in respect of the current year was £10.0m. There was a credit of £0.6m relating to prior years, which was offset by £1.4m of deferred tax charges principally relating to capital allowances (the difference between the tax written down value of the capital allowance and the net book value of the underlying assets).

### Cash Flow and Balance Sheet

The Group continued to be strongly cash generative at the operating level. Total cash generated from operations was £67.0m compared with £55.3m in 2011 primarily due to the better trading levels which also resulted in higher creditor levels at the end of 2012 compared with 2011.

The raising of £16.4m through the share issue helped to offset the cash paid for the acquisition of Picturehouse of £43.7m. Net cash spent on capital for the year was £31.1m. Included in this cash expenditure was £8.5m in relation to the purchase of digital projectors and £4.9m on IMAX, £8.8m on new systems implementation (including the replacement of the cinema point of sale system and upgrading automated ticket sales points), £6.6m on refurbishments and maintenance and £0.5m (net of £2.3m reverse premium) was spent on the new site in Aldershot. The balance of other capital expenditure of £1.8m was for equipment replacements and expenditure on various initiatives. The high level of internally generated cash has funded our entire capital expenditure whilst repaying term debt of £5m and paying dividends of £16.0m.

Net debt increased to £126.9m at the end of 2012 (2011: £101.4m) as a result of the net impact of drawing down of £32.3m from existing facilities to part fund the acquisition of Picturehouse, £3.9m acquired debt as a result of the acquisition offset by the £5m repayment of term debt.

Overall, net assets increased to £188.6m (2011: £160.3m). This includes the recognition of fair value of net assets acquired with Picturehouse totalling £24.1m and the residual goodwill recognised on acquisition of £19.6m. Due to the ongoing review by the Office of Fair Trading and the close proximity of the transaction to the year end, these values have been included on

a provisional basis. The fair values are required to be finalised within 12 months of acquisition, with any adjustments to fair value being recognised in goodwill.

### Dividends

The Directors are recommending to shareholders for approval a final dividend in respect of the period ended 27 December 2012 of 8.0p per share, which taken together with the interim dividend of 3.8p per share paid in October 2012, gives a total dividend in respect of 2012 of 11.8p per share, a 0.8p increase on the level in 2011. Subject to shareholder approval, the final dividend will be paid on 4 July 2013 to shareholders on the register at 7 June 2013.

### Board Changes

Tom McGrath has decided to step down at the Annual General Meeting on 15 May 2013 and not stand for re-election. He has been a Non-Executive Director since May 2005. Tom joined the Company prior to its listing in 2007 and has brought a breadth of knowledge and experience, particularly of the US film and cinema industry.

Rick Senat and Martina King have been appointed as additional members of the Nominations Committee and Rick will become Chairman when Tom steps down. Martina has also been appointed to the Audit Committee and Rick to the Remuneration Committee.

### Current Trading and Outlook

The current financial year has started strongly. A good level of business carried over from the Christmas period with the main films being "The Hobbit: An Unexpected Journey" and "Life of Pi". "Skyfall" also continued to play well in the New Year, given that it was released in late October. Trading at the beginning of the year also received a strong boost from the release of "Les Miserables" which has performed well. Films such as "Impossible", "Wreck it Ralph", "A Good Day to Die Hard" and "Django Unchained" have also helped to underpin the strong start.

There is a promising film release schedule for the remainder of 2013 which we expect to complement our programming strategy, and in contrast to the previous year, there are no major events which are anticipated to provide a distraction for cinemagoers, with a more even spread of films across the year. Amongst those films planned for release are a number of proven franchises including "Star Trek: Into Darkness", "The Hobbit Part 2", "Man of Steel", "Iron Man 3" and "The Hunger Games: Catching Fire". This release schedule for the rest of the year together with other potential opportunities for the business means we are confident of our prospects in the year ahead.

**Stephen Wiener**  
Chief Executive Officer  
7 March 2013

**Philip Bowcock**  
Chief Financial Officer



## Developing our people, effectiveness and efficiencies

Cineworld's people are crucial to the ongoing success of the business and the implementation of our 'Customer First' strategy. We aim to ensure that Cineworld is a great place to work and, in turn, a great place to watch films. Market leading in-house training and succession programmes shows Cineworld's commitment to developing its people and plays an important role in ensuring business continuity. Cineworld is proud that a high proportion of manager and supervisor positions are held by people who initially started at the entry levels in cinema. Apprenticeships, Succession Programmes and The Academy form part of a structure development programme across all levels of the business and means that, when vacancies arise, internal candidates are well placed to secure advancement resulting in a high internal promotion rate of 80% across all positions.

80%

of new managers  
develop through our  
Supervisor Step-up  
programme





## Risks and Uncertainties

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

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

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

#### Availability and Performance 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.

There is a further risk that a major film may be released late or may not perform at the box office in line with expectations. Cineworld has an experienced team liaising closely with distributors and forecasting the likely performance of films based on historically precedent and their knowledge of the film industry.

#### Digital Conversion Cost Recovery

Film studios have agreed to help finance Cineworld's conversion to digital projection and it expects to recover up to 90% of the total costs of conversion over a 7-10 year period. At completion of the rollout, Cineworld had incurred the costs of converting 100% of its projection facilities to digital, which was approximately £40m. There is a risk that payments are not received, or that full recovery of the costs does not happen within the ten year term of the agreed arrangements. There are binding contracts, put in place by Arts Alliance Media ("AAM") from which Cineworld benefits, for the recovery of these payments. Cineworld chose AAM because of the quality of its systems and experience in administering this type of contract and, to date, all payments have been received in accordance with the contractual terms. As time passes, the risk of non-recovery of this expenditure reduces.

#### Alternative Media and Advancement of Technology

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 16 weeks and three days in the UK, to capitalise on box office awareness and success. Cinema exhibitors have, historically, mitigated this threat by refusing to screen films with reduced release windows or insisting on paying reduced film rentals which has minimised reductions to date.

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.

The continuing development of existing and new technology (such as 3D television and internet streaming) may introduce new competitive forces for the film-going audience. The cinema does, however, provide a unique social experience that to date cannot be matched by watching films at home. Also trials by studios to release films on the internet during the theatrical release window have, so far, not proved to be commercially successful.

#### 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. The quality of copies pirated by recording from a cinema screen have improved and can be of a similar quality to films pirated from other media and copies made in the earlier manufacture and distribution stages. It is, however, currently not possible to produce a 3D pirated version of the original film from a portable recording device used in a cinema. So far, the impact of piracy has been higher on alternative media (especially on DVD) than on cinema. Cineworld works with and continues to be a strong supporter of initiatives by The Federation Against Copyright Theft.

<b>Acquisitions</b>	There is a risk that due diligence undertaken during an acquisition process fails to accurately identify ongoing profitability and other issues that may seriously affect the valuation of a business. As part of any acquisition process professional advisors are retained and report to the Board, or the appropriate Committee, on pertinent aspects of any target business.
<b>Screen Advertising Revenue</b>	<p>Screen advertising accounts for a proportion of the Group's profits and the level of revenues earned will be affected by the overall demand for advertising and the competitive pressures for that advertising spend. In addition, lower levels of admissions may impact the level of advertising which the business can attract resulting in reduced screen advertising revenues.</p> <p>The formation of Digital Cinema Media Limited in 2008, with a joint venture partner, was a positive step towards taking closer control of future screen advertising revenues. The advantages of screening advertisements to a captive audience in cinemas and the flexibility of digital media to deliver more and varied advertising are potential opportunities to attract more advertisers and to generate higher revenues.</p>
<b>Poor Location Selection and Construction</b>	The selection of the wrong location for the development of a new cinema, or its poor construction, could result in lower than expected returns and a series of poor decisions on location, or poorly constructed cinemas, could seriously impact the Group. Each potential site is reviewed carefully and the management team are experienced in the choice of location for, and development of, new sites.
<b>Extreme Weather Conditions</b>	<p>Unusual weather patterns such as unseasonably warm summers or extreme snowfalls in winter can impact attendances at cinemas and, particularly where this coincides with a major film releases, it could have a significant effect on revenues.</p> <p>Most of our cinemas are air conditioned and, in periods of extreme warm weather, historically audience levels have returned to near normal seasonal levels after a while.</p>
<b>UK and Global Economy</b>	The main driver of cinema-going is the film, although it is recognised that macro-economic influences may affect cinema-going and the level of retail spend per customer on each visit. In addition, the price of such items as energy and foodstuffs has a direct impact on costs which we may not be able to pass on to customers. With cinema being a less expensive form of entertainment and leisure, economic downturns may benefit cinemas at the expense of other entertainment and leisure activities.
<b>Availability of Capital</b>	<p>The cost and availability of finance may affect the Group's ability to expand. Limited availability of capital has impacted property developers who have not been able to proceed with developments which would have included new cinemas. The Group has a promising pipeline of potential new sites and its strong covenant is attractive to developers and places Cineworld as a preferred tenant in many proposed new leisure developments.</p> <p>The failure of one of the banks used by the Group could result in the loss of deposits and/or banking facilities. Banks are monitored and reviewed and deposits spread between a number of institutions to reduce the risk.</p> <p>Reduced lending may also affect the financing of film productions which could reduce the supply of films and/or delay their production and releases in cinemas.</p>
<b>Competition</b>	<p>Existing competitors could change their strategies or a new competitor could enter the market at a local or national level reducing trade. The cost of developing new sites or acquiring existing cinemas are, however, barriers to entry as are the lack of readily available cinemas for acquisition.</p> <p>Cinemas also compete for customers against other leisure and entertainment attractions. In the short term, major events such as the Olympics and other sporting tournaments may impact attendance levels for their duration. Also, over the longer term, the aging of the UK population may result in lower attendances and lower sales of key retail products because of changes in fashions and tastes. Scheduling of appropriate films and the marketing of targeted retail items should help ensure cinema remains an attractive entertainment choice and maintain spend per person. Also retaining flexibility in staffing levels should help to minimise any impact on profits.</p>
<b>Failure of IT Systems and Data Controls</b>	The failure of the Group's IT systems or data controls could impact the profitability and reputation of the Group. All suppliers are monitored and the Group employs an appropriately qualified team to maintain its in-house systems with external experts being employed to oversee, and help manage, major projects involving the upgrading or replacement of such systems.
<b>Government Regulations and Actions</b>	Cineworld's business and operations are affected by central and local regulations covering such matters as planning, the environment, health and safety, licensing, food and drink retailing, data protection and the minimum wage. Failure to comply with this type of legislation may result in fines and/or suspension of the activity or entire business operation. In addition, changes to pension legislation such as automatic enrolment and regulation relating to the Group's defined benefit schemes, could result in additional costs from funding pension obligations or from changes in the way pension schemes are administered.

# Corporate Responsibility

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

The Board is committed to ensuring that an appropriate standard of corporate governance is maintained throughout the Group. This commitment includes recognition by the Group of the importance of taking into account its corporate social responsibilities (“CSR”) in operating the business. In this context, Cineworld seeks to integrate CSR considerations relating particularly to social, ethical, health and safety, and environmental issues in its day to day operations. The Board acknowledges its duty to ensure the Group conducts its activities responsibly and with proper regard for all its stakeholders including employees, shareholders, business partners, suppliers and local communities. Further information in respect of the Group’s activities is set out below together with illustrative examples. As City Screen Limited and its subsidiaries (“Picturehouse”) was only part of the Cineworld Group for a short period at the end of the year, this section principally relates to Cineworld Cinemas.

### Cineworld Cinemas Community

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

In addition, Cineworld has continued to show a wider range of film product than its main competitors including non-English language titles, smaller British releases and independent American productions. Cineworld has continued its successful screening of Polish films and has hosted UK premieres of Polish titles at its Haymarket and Hammersmith cinemas. It also partnered again with BAFTA on the annual ‘BAFTA Tour’, bringing back award winning films to the big screen at selected cinemas.

Cineworld has continued its commitment to alternative content in the form of live screenings from the Metropolitan Opera, the Royal Opera House and the National Theatre. Cineworld also showed a wide range of other cultural and sporting events such as “Andre Rieu, Home for Christmas”, “Westlife Celebration Day” and “Wimbledon” (in 3D). Screening such a wide range of content means that we attract a wider range of audiences into our cinemas and helps us distinguish ourselves in the marketplace from our principal competitors.

2012 saw Cineworld working again with various charities, local government and community groups. Activities included Cineworld supporting BBC’s Children in Need, running charity premieres of “Nativity 2” and working with Variety to run a number of morning screenings for schools. Undertaking such activities helps to establish and make the Cineworld brand better known in local communities.

Cineworld continued as a venue partner for several festivals including the Bradford International Film Festival, the Jameson Dublin Film Festival, and the Glasgow Film Festival and, after a

break in 2011, Cineworld returned to its successful partnership with the Edinburgh International Film Festival hosting 50% of the festival screenings. This involvement helps to promote Cineworld’s brand through the wider film industry and increase awareness of the Cineworld brand in audiences that might not normally associate Cineworld with this kind of wider film based activity.

### Access for All

Cineworld is keen to promote a ‘Movies for All’ policy for our Customers. Increasing accessibility results in local cinemas playing a fuller role in the communities in which they operate. On Saturday mornings we operate ‘Movies for Juniors’, where it is still possible for children to see films for £1. This price has not increased for over 16 years. During 2012, Movies for Juniors has also been extended to Sundays and weekdays during holiday periods at selected cinemas. Senior citizens and students continue to benefit from discounts at certain times of the day. Cineworld also subscribes to the Cinema Exhibitor Association (“CEA”) card scheme which allows registered disabled customers to be accompanied by a carer with them free of charge.

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

Cineworld continues to support the CEA Disability Working Group and, internally, the business’s own Disability Focus Group meets regularly to review all aspects of disability access and the improvement in the services provided in this area. As a result of the continued work into disability access and awareness the industry received praise in the ‘Removing Barriers, Promoting Independence’ report from the action group “Trailblazers”. This year also saw the development of a cross-industry film called ‘Welcoming Disabled Customers’. Developed in partnership with our colleagues across the industry and the CEA, the film provides a consistent approach to disability awareness training across all circuits. The film shows Cineworld’s commitment to working within the industry to ensure best practice when it comes to disability awareness and to providing the best possible cinema experience for all customers and it has now been incorporated into the two day cinema induction programme for all new starters.

As part of the process of improving further Cineworld’s offer to disabled customers, all Cineworld staff have received training in “Disability Awareness and Welcoming Disabled Customers” and, during 2012, it delivered in excess of 277,000 audio descriptive screenings (2011: 120,000), and over 11,000 subtitled screenings (2011: 10,000) and also launched autism screenings across 21 cinemas on a regular basis for the first time.



### Film Piracy

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

With the ever changing threat of evolving technologies and smaller undetectable recording devices, Cineworld seeks to mitigate this risk by constantly reviewing and developing its training programme, policies and procedures to ensure its staff are able to effectively prevent film piracy. Night vision technology is utilised throughout the circuit and there is an increased vigilance around high-profile vulnerable release titles. Pirate Eye, a specialist camera detection technology system, has been installed on trial at our cinema at The O2 and is in operation for special premieres and preview screenings.

At the annual FACT awards, a total of fourteen rewards were presented nationally to UK film exhibitors. Five of these rewards were presented to staff at Cineworld Cinemas in Aberdeen Queens Link, Leigh and Wandsworth for their efforts in detecting and preventing piracy.

### Environment

Cineworld seeks to comply with all relevant environmental legislation and to operate in an environmentally sensitive manner. The Directors acknowledge the impact that the business has on the environment and seek to mitigate it. Often changes which help to mitigate our environmental impact also reduce our operating costs. For instance, in 2012, Cineworld working with one of its partners completed phase 1 of a “Print @ Home” project which means that approximately 750,000 promotional vouchers will be sent by email each year to customers rather than by post. In phase 2 (due to be completed in 2013), customers will no longer need to print out these vouchers and instead they will be scanned by cinema staff from customer’s smartphones.

Being a multi-site business, the Group is conscious of its total energy consumption and the amount of waste materials generated, and is actively working to reduce both energy usage and the quantity of waste materials produced that cannot be recycled. During 2012, there was a continued focus on raising energy awareness at cinema sites with the aim to promote best practice and to reduce energy usage through better housekeeping and operating more efficiently. Daily energy usage reports are now available to most cinemas and the results in turn are incorporated into energy performance league tables, daily energy exception reports and monthly site reporting. These reports enable sites to monitor energy in a more controlled approach helping to identify problem areas which can then be resolved to achieve further energy and cost savings. The installation of automated meter reading gas meters, which facilitate the energy usage reports, has now been completed at 73 Cineworld Cinema sites out of a total of 80 sites (2011: 72 out of 79).

As previously reported in 2011, a pilot energy efficiency project at the Cardiff cinema site succeeded in reducing carbon emissions at the site by over 15%. Based on the success of this project, six other cinema sites had similar works rolled out in late 2011. The energy consumption for these sites has been monitored during 2012 resulting in the reductions of carbon emissions by up to 21% at one site and an average across all six sites of 10.4%.

Collectively all the measures undertaken by Cineworld Cinemas during 2012 to limit gas and electricity consumption reduced its carbon footprint across 78 comparable sites by 3.6% in 2011/12 (2010/11: 5.5% across 73 sites) and allowed the Group to benefit from considerable cost savings. To continue the process during 2013, seven sites have been selected for trial projects with remote energy building management systems and voltage optimisation with savings projected to be over 15% per site. In addition there will also be renewed focus on water usage and conservation measures.

The conversion to digital technology was completed during the year and further reduced Cineworld’s environmental impact. The move away from 35mm celluloid prints has reduced the use of raw materials for the production of bulky prints using chemical processes, which ultimately are shredded as they are unable to



## Cineworld's people remain crucial to ensuring the ongoing success of the business.

be recycled at the end of their relatively short life. In addition, the distribution of digital content through small hard drives or by satellite greatly reduces the delivery costs and associated carbon footprint. Satellite delivery removes the carbon impact almost completely and this year a growing number of films shown in Cineworld cinemas were distributed in this way.

3D technology has its own environmental challenges with the use of special disposable 3D glasses. In 2009, Cineworld altered its pricing structure from a premium for 3D films with "free" glasses to a smaller premium with customers being required to purchase glasses separately. This approach, which continues today, has significantly encouraged customers to retain their glasses for future use and, during 2012, on average around 50% of audiences for 3D films brought with them glasses obtained from previous visits (2011: 45%).

### Retail

During 2012, Cineworld continued to review its approach to marketing its food and drinks offers in its cinemas and how to ensure it allowed its customers to make informed choices. We seek to provide the range of products our customers seek in a way that is responsible, takes account of alternative healthier options and reduces the impact on the environment.

In response to customer feedback following our Customer First philosophy, 2012 saw the introduction of a revised soft drinks offering with reduced sizes of these items accompanied by a reduction in price. The large, regular and small drink cup sizes were each reduced by between 27% and 31%.

A number of initiatives to help reduce waste have happened during the year. An example was where a change in Cineworld's frozen carbonated drink supplier could have resulted in wasted branded stock on the date of switchover. By all involved taking a collaborative approach, a large residual stock of plastic cups was avoided by the old supplier agreeing to have their branding covered over by the new supplier's which allowed us to use these cups rather than sending them direct to landfill.

A number of new promotional initiatives were also introduced to make the Cinema a more affordable and inclusive treat for differing customer segments. The value "Family" combination is

now available across the majority of our cinemas on a permanent basis (rather than being offered in school holidays) and a new "Coffee and Muffin" combination for those customers who want an alternative to the traditional cinema snack and drinks offer.

Each time there is a requirement for a new or replacement contract, all proposed arrangements are carefully reviewed to ensure that they are not only commercially beneficial, but also appropriate account is taken of environmental considerations. For instance we opened our first two Starbucks coffee shop at our Sheffield and Crawley cinemas in 2012 with further openings planned for 2013. While Starbucks highly recognised brand made them an attractive partner, their strong environmental credentials played a significant part in the decision to roll out their coffee offer.

### Our People

Cineworld's people remain crucial to ensuring the ongoing success of the business. All of our human resources initiatives are aimed at ensuring Cineworld is a great place to work and in turn, a great place to watch films. Once again, 2012 saw a considerable investment in a number of initiatives aimed at ensuring individuals are developed and supported in reaching their full potential and are able to play a full part in the teams in which they work. Training also helps staff members feel part of the team and valued which is essential if they are to provide the services which customers expect.

Our Academy programme for high potential managers has been expanded and Cineworld now offers employees the chance to study for qualifications at levels 5 and 7 accredited by the Institute of Leadership and Management ("ILM"). For team members and supervisors, established internal succession programmes identify and develop talent for the next role in the business. The Team Member Succession Programme lasts six months, has a succession rate of 95% and develops people up to the level of supervisor. The Supervisor Succession Programme has a succession rate of 80%, lasts nine months and develops people up to the level of Operations Manager. Cineworld also remains committed to apprenticeships and last year saw 56 employees achieve either intermediate or advanced level apprenticeships with a further 90 on the programme at the end of the year.

### Family special

Exclusive to family ticket holders

2x large soft drinks

+

2x munchboxes

+

1x large popcorn

£9.95





Apprenticeships, the Succession Programmes and The Academy form part of a structure development programme across all levels of the business which are all key to developing talent in essential areas of our business and means that when vacancies arise internal candidates are well placed to secure advancement and Cineworld does not lose any of its most talented people ensuring the ongoing success of its business. It has also resulted in a high internal promotion rate of 80% across all positions.

In addition to the regular and ongoing “core courses” which give continual learning opportunities to all our managers, the business rolls out specialist training. This year saw 100 senior managers being undertaking the “Speed of Trust” training programme. The course, which identifies trust as one of the key leadership competencies vital for business leaders today, helped to underpin the wider Customer First strategy of creating a trusting and empowered culture at all levels of the organisation.

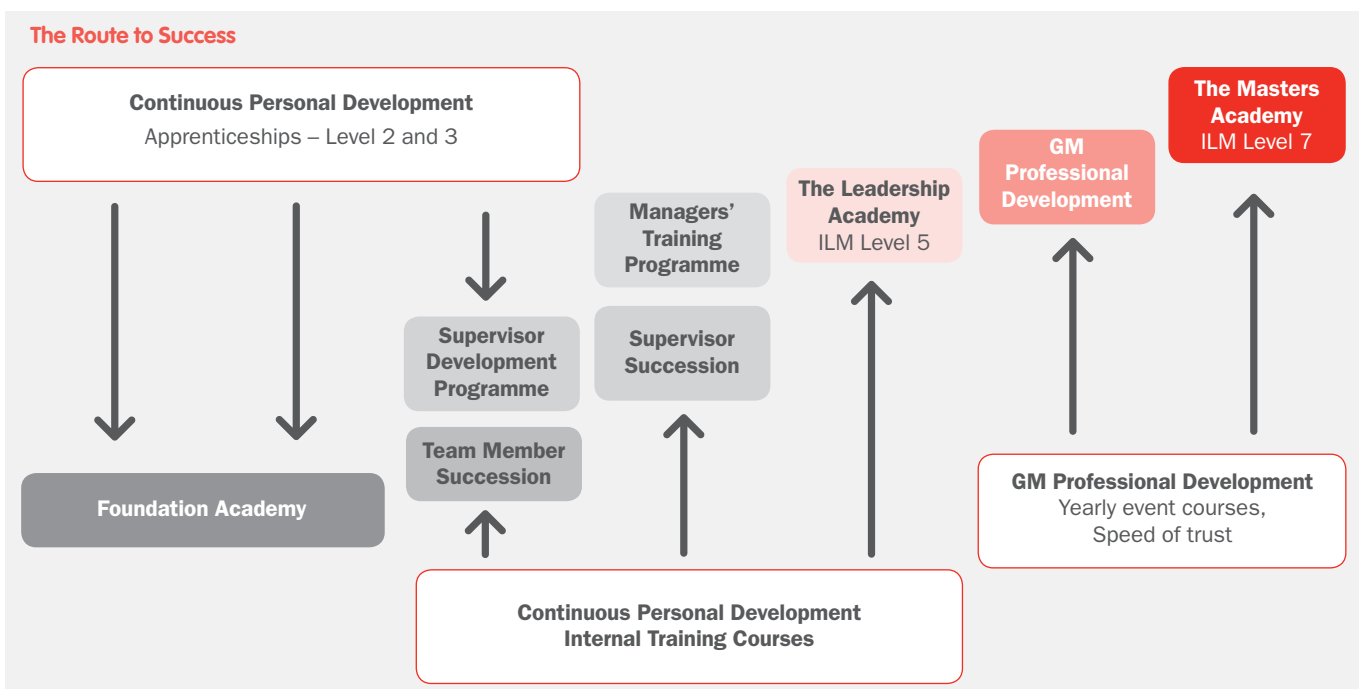
2012 saw the launch of our first ever all employee engagement survey ‘Have Your Say’. A number of our people from all levels within the business had the opportunity to complete the survey and feedback their comments. Subsequently, a cross functional project team was formed to generate ideas to ensure that we continuously improve our employment offer and ways of working. As a result a number of people initiatives have been rolled out in 2012:

- we have launched a flexible benefits package meaning that our people can select and enjoy a range of benefits at discounted rates;

- we have totally redesigned and re-launched the Cineworld intranet to ensure that we are working with our people in the most effective way and providing them with a good source of information; and
- we have established quarterly all employee briefings which provides senior management with an opportunity to update the teams about the direction the business is going in, our performance and other business initiatives whilst also providing an opportunity for questions and answers.

All employees throughout the Group participate in the success of Cineworld through bonus schemes and Cineworld is proud that for the 18th consecutive year bonuses were paid to all qualifying staff in 2012. Performance ratings were linked directly to individuals’ bonus awards – this helps ensure that everyone is recognised and rewarded for their individual contribution to the business. To ensure that we continue to develop our people and support their career progression, we have refined our approach to performance management to ensure the focus remains on good quality conversations and the outputs directly link to individual’s development plans as well as their bonus entitlement.

Cineworld is also committed to increasing the number of employees who hold shares in the Group. Following the previous successful operation of the SAYE Share Option Scheme, another invitation to staff to participate was made in 2012 with the result that over 340 staff members applied to participate and were granted options exercisable in three years’ time.



The ongoing management of the day to day health, safety and welfare of Cineworld’s customers, employees and contractors is of major importance with over 46m customer visits a year.

**Safety**

The ongoing management of the day to day health, safety and welfare of Cineworld’s customers, employees and contractors is of major importance with over 46m customer visits a year. Cineworld have continued to build on last year’s advances in the effective management of our health and safety obligations and our duty of care to our customers and staff.

During the 2011/2012 period, Cineworld has initiated a complete review of its health and safety operations including audit processes, fire risk assessments and associated documentation to ensure that our model is scalable in line with forecast growth within the Group. All Cineworld Cinemas were also subject to a Fire, Food and Health and Safety Audit which were conducted on an unannounced basis by our external consultants as in previous years. Sites achieved an average score of 93% (with 85% being considered the acceptable level of performance) and, in doing so, have continued to make good progress compared to the previous year with the average score increasing by 3% overall.

For the first time in its history, every Cineworld Cinema site within the Group scored above the 85% threshold which shows that the processes and procedures put in place over the last few years are achieving the desired results of making Cineworld Cinemas as safe an environment as possible for both staff and customers alike. Notwithstanding this performance, regular monthly compliance monitoring continues to be undertaken at all sites to ensure that standards remain high.

**Diversity**

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

**Picturehouse**

Picturehouse works at every level to respect the well being and safety of its staff and its customers. Its policy is to decentralise authority and responsibility to its individual cinemas and to guide, check and monitor the effectiveness of this through provision of guidelines from its head office for implementation by the people on site. A rolling programme of audit and compliance processes covering all areas of safety, customer care and financial accuracy checks and controls the effectiveness of the implementation.

We place ourselves at the heart of the community. The cinemas are in town and city centre sites and aim to make the fullest use of public transport and we have many partnerships with local retailers which encourage customers to spend locally, helping keep town centres alive and this is central to our development policy. The business also strives to build architecturally attractive venues that make a contribution to their urban environment.

Picturehouse are strong supporters of independent films. A programme of arthouse and world cinema is at the core of our programming policy. The cinemas actively support smaller films and documentaries through the “Discover Tuesdays” slot and through a multitude of one-off screenings. The cinemas also support numerous film festivals including the Cambridge Film Festival, Human Rights Watch Festival, London Film Festival, Lesbian and Gay Film Festival, Kurdish Film Festival and many others.

We pioneered “Alternative Content” screenings in the UK and have been responsible for outreach work across the arts by screening opera, theatre, ballet and literary events live by satellite to cinemas across the independent sector – creating substantial audiences whose needs had not been previously met and who now contribute to the sustainability of many independent cinemas. Picturehouse also created Parent and Baby screenings and Autism-friendly screenings, which are now regularly screened across the whole exhibition sector, and it works with local community groups and schools to provide opportunities to experience and learn about cinema.

As at 27 December 2012, the split between male and female members of staff at different levels of the business was as follows:

	Cineworld Cinema Sites				Head Office			
	Team Members and Supervisors	Operations Managers	Deputy General Managers	General Managers	Head Office Staff	Middle Managers	Vice Presidents	Board of Directors
Male	54%	62%	63%	70%	58%	64%	87%	89%
Female	46%	38%	37%	30%	42%	36%	13%	11%



Picturehouse is a partner in the Cambridge Film Consortium which provides educational work across schools and colleges in the Cambridgeshire area. It also employs four education officers across the Group and supports the work of education officers employed by the Trust which is the landlord of its Norwich cinema. All this activity encourages cinema going and life long learning about film whilst also promoting the Picturehouse name and its cinemas to a broad ranging constituency.

Opportunities are provided at all cinemas for members of the community who cannot afford peak time prices to buy discounted tickets either on special days or for club screenings (e.g. Silver Screen). Picturehouse has always allowed customers who require a carer to bring the carer for free and in 2012 we introduced a free Carers Card which enables customers with disabilities to obtain a free carer's ticket in-person, by telephone or online. The card looks similar to any other membership card and so as well as adding convenience, the customer's privacy is respected. We have always striven to exceed the legal requirements to enable customers with disabilities to visit our cinemas.

Our published company values focus on our people. We aim to treat staff fairly and with respect, providing a good environment in which to work and this contributes to our aim of delivering excellent customer service with a strong emphasis on the individuality of the people and the service.

Picturehouse has supported the charity Plan for a number of years, principally through donating 10p for every bottle of water sold and through an annual fund raising event. This money is used to build wells in village communities in Niger, West Africa. In 2012, a relay bicycle ride involving 61 cyclists travelling 1269 miles from Aberdeen to Exeter linked all of the Picturehouse cinemas and contributed substantially to the £48,000 paid to PLAN by Picturehouse in 2012. Such activities not only benefit a good cause, but also help to bring together our cinema teams.

## Directors' Biographies



### **1. Anthony Bloom** Chairman – Age 74

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

### **2. Stephen Wiener** Chief Executive Officer – Age 61

Stephen Wiener joined the Board in October 2004. He has 43 years' experience in the cinema industry, starting in the US as an usher whilst a full time student, and rising through various roles culminating in Vice President for Cineplex Odeon in New York City. He then moved to Warner Bros Europe in 1991 to become Managing Director. In 1995, he left to found Cine-UK Limited and developed the business into a chain of 34 cinemas before it was acquired by Blackstone in October 2004. At the time of the UGC acquisition, he was appointed Chief Executive Officer of the combined Group. He is also a Non-Executive Director of Digital Cinema Media Limited, the screen advertising company 50% owned by Cineworld.

### **3. Peter Williams** Non-Executive Director – Age 59

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; Chairman of both Erno Laszlo, a luxury skincare business based in New York, and, Without Prejudice, a men's formalwear brand; a Non-Executive Director of Silverstone Holdings Limited and is a trustee of the Design Council. In the past, he has also served on the boards of the EMI group, Blacks Leisure Group plc, JJB Sports plc, GCap Media plc, and Capital Radio Group plc. In his executive career, he was Chief Executive at Alpha Group plc and prior to that Chief Executive of Selfridges plc where he also acted as Chief Financial Officer for over ten years. Mr Williams has a degree in Mathematics from Bristol University and is a chartered accountant.

### **4. Philip Bowcock** Chief Financial Officer – Age 44

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



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#### **5. Thomas McGrath**

##### **Non-Executive Director – Age 57**

Thomas B. McGrath joined the Board in May 2005 and is Chairman of the Nomination Committee. Previously he was Chief Operating Officer of Viacom Entertainment Group and President of Time Warner International Broadcasting, prior to which he worked for Columbia Pictures. Mr McGrath is Senior Managing Director of Crossroads Media Inc., the co-owner of Key brand Entertainment, Inc. and is a Trustee of the New England Conservatory of Music and the American Repertory Theatre at Harvard University. Mr McGrath holds an MBA from Harvard University.

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#### **6. David Maloney**

##### **Non-Executive Director – Age 57**

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

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#### **7. Martina King**

##### **Non-Executive Director – Age 52**

Martina King joined the Board in July 2010. She is a member of the Audit, Nomination and Remuneration Committees. Martina is currently Managing Director of Featurespace and a Non-Executive Director of Capita Plc and Debenhams Plc. Previous roles include Managing Director of Capital Radio PLC and MD of Yahoo! UK and Europe.

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#### **8. Eric (Rick) Senat**

##### **Non-Executive Director – Age 63**

Rick Senat joined the Board in July 2010 and is a member of the Audit, Nomination and Remuneration Committees. He has over 40 years' experience of the film industry. Rick 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 recently revived film company Hammer Film Productions, and has served as Vice Chair of the British Film Institute. Currently, he is a partner in the Blair Partnership – a literary agency, a Non-Executive Director of Pottermore Limited and Bank Leumi (UK) plc and Chairman of the London Film Museum. Mr Senat is a graduate of University College London and a solicitor.

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# Directors' Report

The Directors present their Annual Report and the audited financial statements for the 52 week period ended 27 December 2012. The comparative period is for the 52 week period ended 29 December 2011.

## Principal Activity

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

## Strategy and Business Review

The strategy of the Group is set out on pages 8 to 11 and a review of its business and operations, including the acquisition of City Screen Limited and its subsidiaries ("Picturehouse") and the main trends and factors likely to affect its future development and performance, is set out in the Chief Executive and Chief Financial Officers' Business Review on pages 12 to 22. An explanation of the Group's business model and an overview of the markets in which it operates are set out on pages 4 to 7.

Key performance indicators are set out below and the principal risks and uncertainties are set out on pages 24 and 25. Information about environmental, employee and community issues is set out in part below and also in the Corporate Responsibility ("CR") section on pages 26 to 31.

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

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

## Key Performance Indicators ("KPIs")

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 27 December 2012 are presented under International Financial Reporting Standards ("IFRS") as adopted by the EU. The results for the period are set out in the Group Consolidated Statement of Comprehensive Income on page 53. The results for the parent company are drawn up under UK GAAP.

An interim dividend of 3.8p per share was paid on 5 October 2012. The Directors are recommending a final dividend of 8.0p which, if approved by the shareholders at the Annual General Meeting ("AGM"), will be paid on 4 July 2013 to shareholders on the register on 7 June 2013.

	Including Picturehouse 52 week period ended 7 December 2012	Excluding Picturehouse 52 week period ended 27 December 2012	Excluding Picturehouse 52 week period ended 29 December 2011
Admissions	48.0m	47.8m	48.3m
Box Office Revenue	£252.6m	£251.6m	£242.1m
Average ticket price	£5.26	£5.26	£5.01
Retail spend per customer	£1.73	£1.72	£1.69
EBITDA	£67.1m	£66.6m	£63.3m

### Financial Risk Management

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

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

The Group refinanced its bank loan in March 2011 and entered into a new five year facility agreement of £170m which was comprised of a £70m term loan and £100m revolving credit facility to replace its previous facilities of £165m. The whole term loan, an amount of £70m, was hedged in accordance with the terms of the facility agreement on a weighted average fixed rate of 4.6% whilst the revolving credit facility attracted a floating interest of LIBOR plus 1.95%. The Group has taken steps to ensure that the swap is accounted for as a hedge and that changes in its valuation are recognised through reserves. Further information is provided in Note 21 to the financial statements.

### Directors and Directors' Interests

Short biographical details of the Directors of the Company, who held office at the end of the period under review, are given on pages 32 and 33. There were no Board changes during the year.

On 31 January 2013, it was announced that: (i) Tom McGrath, a Non-Executive Director, had decided not to stand for re-election at the 2013 AGM and so will leave the Board on 15 May 2013, (ii) Martina King and Rick Senat had been appointed as additional members of the Nomination Committee and that Rick Senat will become the Chairman of the Committee when Tom McGrath, the present Chairman, retires at the AGM, (iii) Martina King had joined the Audit Committee, and (iv) Rick Senat had also joined the Remuneration Committee.

The Articles of Association (the "Articles") require one third of the Directors to retire by rotation at the AGM and, being eligible, to offer themselves for re-election. In addition under the Articles, any Director appointed during the year must resign and stand for re-election at the next AGM. However, in accordance with best practice, all the Directors are offering themselves for re-election this year at the AGM with the exception of Tom McGrath. Following the Board evaluation process undertaken in November 2012, 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 on page 36. Details of the Directors' remuneration and information on their service contracts are set out in the Directors' Remuneration Report on pages 44 to 50.

Details of the Directors' interests in the ordinary shares of the Company arising under the Group's Share and Option Schemes are set out in the Remuneration Report on pages 49 and 50. No rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial period. None of the other Directors had any disclosable interest in the shares of Group companies and there have been no changes to Directors' share interests between 27 December 2012 and the date of this report.

None of the Directors has a material interest in any contract of significance to which the parent company or a subsidiary was a party during the financial year, other than as disclosed above, in their service contracts or letters of appointment described on page 47 and 48 and in Note 24, Related Parties.

### Conflicts of Interest

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

### Share Capital and Control

The Company has only one class of share capital formed of ordinary shares. All shares forming part of the ordinary share capital have the same rights and each carries one vote. Details of the share capital, and changes in it over the period, are shown in Note 20 to the financial statements. There has been an increase in the issued share capital between 27 December 2012 and the date of this report as a result of the issue of 1,162 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 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	
	27 December 2012	29 December 2011	27 December 2012	29 December 2011
Anthony Bloom	–	–	1,723,224*	1,723,224*
Philip Bowcock	10,000	–	–	–
Martina King	1,942	–	–	–
David Maloney	20,000	10,000	–	–
Thomas McGrath	5,000	131,000	–	–
Rick Senat	20,407	–	–	–
Stephen Wiener	1,939,589	1,746,430	–	–
Peter Williams	40,000	20,000	–	–

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

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

There are no special major shareholder voting arrangements.

### Essential Contracts and Arrangements

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

### Change of Control

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

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

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

At the AGM held on 21 May 2012, shareholders gave authority for the allotment of shares up to an aggregate nominal value of £951,720 subject to certain conditions. This authority will expire on the earlier of the 2013 AGM and 20 August 2013. A total of 6,855,457 shares have been issued under this authority. 6,849,999 ordinary shares were issued on 7 December 2012 and the proceeds used to repay borrowings incurred in connection

with the acquisition of Picturehouse. 6,401,020 ordinary shares were placed with institutional and certain other investors including some of the Directors and a further 448,979 ordinary shares were issued to Stephen Wiener and Lyn Goleby under separate share subscription agreements all at a price of £2.45. The closing market price of an ordinary share on 7 December 2012 was £2.58. In addition 5,458 ordinary shares have been issued in respect of the exercise of share options maturing under the Cineworld Group Sharesave Scheme. Details of the 6,855,457 ordinary shares issued in the period in this respect are set out in Note 20.

Also at the AGM held on 21 May 2012, shareholders gave authority for the purchase of up to 21,399,000 ordinary shares in the Company for cancellation or placing into treasury. No shares have been acquired under this authority.

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

### Annual General Meeting

The Notice convening the AGM, to be held at The Cineworld Cinema, South Side Shopping Centre, Wandsworth High Street, London, SW18 4TF at 2.00pm on 15 May 2013, 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.

### Substantial Shareholdings

At 27 December 2012, the Group had been notified, pursuant to the Disclosure and Transparency Rules of the following interests in the voting rights of the Company. Notifications confirming a party's interest has gone below the threshold notification level have not been included:

	Voting Rights	% of Total Voting Rights <sup>1</sup>	Nature of Holding
Parvus Asset Management (UK) LLP	17,310,599	11.57	See Note 2 below
Artemis Investment Management Limited	12,990,723	9.09	Direct interest
HSBC Holdings PLC	13,398,412	8.95	Direct and indirect interest
AXA Investment Managers S.A.	7,850,070	5.53	Not disclosed
Mawer Investment Management Limited	7,484,903	5.00	Direct interest
Rathbone Brothers PLC	7,294,800	5.11	Indirect interest
Ameriprise Financial Inc.	7,251,928	5.80	Indirect interest
Legal & General Group Plc	7,145,246	5.00	Direct and indirect interest
Royal London Asset Management Limited	4,887,024	3.42	Direct interest

Note 1: Percentages are stated as at the time of notification.

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

The following additional notifications were received in the period from 27 December 2012 up to 7 March 2013 (the last practical date to include such notifications).

	Voting Rights	% of Total Voting Rights <sup>1</sup>	Nature of Holding
Parvus Asset Management (UK) LLP	11,423,993	7.64	See Note 2 below
Artemis Investment Management Limited	7,471,903	4.99	Direct interest
Norges Bank	5,538,902	3.70	Direct interest
HSBC Holdings PLC	Below Notifiable Threshold	–	Direct and indirect interest

Note 1: Percentages are stated as at the time of notification.

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

### 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 £89,700 (2011: £39,500) to a variety of local and national charities in the UK. In addition the Group supported over 50 film screenings on behalf of various charities in the year and responded to requests from charities and schools with over 1,300 free tickets.

### Payment of Suppliers

Cineworld Group plc, which holds the investments in the Group's companies, does not trade itself and does not have suppliers as defined by the Companies Act 2006. The Directors believe, however, it would be helpful to give the disclosures on a consolidated basis. The Group seeks the best possible terms from suppliers appropriate to its business and in placing orders gives consideration to quality, delivery, price and terms of payment. The Group does not follow a specific payment code but has a policy to pay its suppliers in accordance with the specific terms agreed with each supplier. The average number of days' payments to suppliers that were outstanding at 27 December 2012 for the Group was 39 days (2011: 27 days).

### Employees

The policy is to recruit, employ and develop staff on the basis of the suitability of their qualifications and experience, regardless of sex, marital status, race, nationality, age, sexual orientation or

religion. It is Company policy to give full and fair consideration to applications for employment from disabled people, having regard to their particular abilities and aptitudes. Full consideration is given to continuing the employment of staff who become disabled, including considering them for other reasonable positions.

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

Regular and open communication between management and employees is essential for motivating the workforce. Briefings are held regularly to provide updates on the Group's business and to provide opportunity for questions and feedback. There was 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 39 to 43 which together with the Directors' Remuneration Report and the Statement of Directors' Responsibilities 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 26 to 31.

### **Significant Events since the Year End**

There were no significant events.

### **Disclosure of Information to Auditors**

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

### **Auditors**

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

### **Funding and Liquidity**

Information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Chief Executive and Chief Financial Officers' Business Review and the Risks and Uncertainties section on pages 12 to 25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive and Chief Financial Officer's Report on pages 12 to 22. In addition Note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

As highlighted in Note 16 to the financial statements, the Group meets its day to day working capital requirements through its bank facilities which consist of a five year facility of £170m, which comprises of a £70m term loan and £100m revolving facility. As at the period end, £60m of the term loan plus £64m of the revolving facility were drawn down. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance in the foreseeable future.

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

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

By order of the Board

### **R B Ray**

Company Secretary  
Cineworld Group plc  
7 March 2013

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

Registered:  
England No: 5212407



# Corporate Governance Statement

## Compliance with the UK Corporate Governance Code

The Board is committed to ensuring that an appropriate standard of corporate governance is maintained throughout the Group. The principal governance rules applying to UK companies listed on the London Stock Exchange for the period covered by this statement are contained in the UK Corporate Governance Code published by the Financial Reporting Council in May 2010 (the "Governance Code") and which is available on its website [www.frc.org.uk](http://www.frc.org.uk). For the year ended 27 December 2012, the Board considers that the Company was compliant with the provisions of the Governance Code except that the Chairman did not meet the independence criteria on his appointment (Code Provision A3.1). Further details are set out below under the heading "Directors and Directors' Independence"; otherwise this report explains how the Company has complied with the provisions of the Governance Code. The information required to be disclosed by the Disclosure and Transparency Rules ("DTR") 7.1 and 7.2 is set out in this statement except that information required by DTR 7.2.6 which is set out in the Directors' Report on pages 34 to 38 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

During the year, the Board was composed of eight members, consisting of the Chairman, two Executive Directors and five Non-Executive Directors, all of whom were considered

independent. The names of the Directors at the year end together with their biographical details are set out on pages 32 and 33.

Under provision A3.1 and B1.1 of the Governance Code, Anthony Bloom, Chairman of the Company, was not considered by the Board to be independent as at the time of his appointment as Chairman of the Company he also served as chairman on the board of another company, Cine-UK Limited, within the Group and had held this position since its foundation in 1995. The Board considers that, although Anthony Bloom was not viewed as independent on appointment, his knowledge and understanding of the business are such as to justify him retaining the role as Chairman.

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 44 and 50.

## The Roles of the Chairman and Chief Executive

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

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

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

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

## Independent Directors and the Company Secretary

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

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

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

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

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

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

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

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

Although Cineworld Group plc is not a FTSE 350 company, the Board has decided that in the 2013 financial year, the performance evaluation will be externally facilitated in accordance with the Governance Code.

#### **Board Committees**

In accordance with best practice, the Board has appointed a number of Committees, as set out below, to which certain Board functions have been delegated. Each of these Committees has formal written terms of reference which clearly define their

responsibilities. The terms of reference of each of the Board's three Committees are available on the website or from the Company Secretary.

#### **Audit Committee**

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

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

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

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

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

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

auditor, overseeing the Company's relations with the external auditor and monitoring the effectiveness of the audit process; and

- Reviewing its terms of reference and recommending changes to the Board.

The Committee also considers on an ongoing basis the independence of the external auditors and has established policies to consider the appropriateness or otherwise of appointing the external auditors to perform non-audit services. In particular, under its terms of reference, all non-audit fee work needs to be approved by the Committee if the value of such work is likely to be greater than £30,000. As detailed on page 38 the external auditors are KPMG, who have provided certain non-audit services to the Company, principally in respect of advice on taxation and merger and acquisition 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 was comprised of three members, all of whom are independent Non-Executive Directors (namely Thomas McGrath, David Maloney and Peter Williams) and it met once during the financial year. The Company considers that it complies with the Governance Code, which provides that a majority of the members of the Nomination Committee should be independent Non-Executive Directors. Due to the importance that the Directors play in the success of the Group, the Chairman is invited to attend meetings, and does so, except when his own position is being discussed.

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

During the year, the Committee reviewed its own performance, reviewed the structure of the Board and the three Committees and discussed succession issues. It also considered the development of key individuals just below Board level with the aim of ensuring that key talent was developed and retained within the Group.

After the year end and following Tom McGrath's decision to stand down as a Director, the Committee recommended certain changes to membership of all three Committees. As a consequence on 31 January 2013, it was announced that Martina King and Rick Senat had been appointed as additional members of the Nomination Committee and that Rick Senat would become the Chairman when Tom McGrath, the present Chairman, retired at the AGM. In addition Martina King had joined the Audit Committee and Rick Senat had joined the Remuneration Committee.

#### **Board Diversity**

While the Committee considered gender, nationality and cultural diversity all to be important when reviewing the composition of the Board and possible new appointees, it believes that the single most important factor is to identify, recruit and retain the people it considered, on merit, to be the best candidates for each particular role. It is not currently in favour of setting specific targets for Board representation to be achieved by particular dates. As part of the process of recruiting new Directors, it has agreed that candidates from a wide variety of backgrounds should be considered and, where reasonably possible, short lists should comprise of candidates of both sex.

#### **Remuneration Committee**

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

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

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

The Chief Executive Officer is consulted on the remuneration packages of the other senior executives and attends discussions by invitation except when his own position is being discussed. Given the essential part remuneration plays in the success of the Group, the Chairman is also invited to attend meetings of the Committee and does so except when his own remuneration is being considered. The Committee does not deal with the fees paid to the Non-Executive Directors. The report of the Remuneration Committee is set out on pages 44 to 50.

#### **Re-election**

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

Although the Company is not a FTSE 350 company, all the Directors except Tom McGrath (and not just the one third required by the Articles) will be offering themselves for re-election at this year's AGM reflecting current best practice for larger companies under the Governance Code. Biographical details of all the Directors are set on page 32 and 33.

## Corporate Governance Statement

continued

### Attendance at Meetings

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

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

\* Chairman of Board/Committee.

† Anthony Bloom attended these meetings by invitation.

### Investor Relations

The Directors value contact with the Company's institutional and private investors. An Annual Report and Accounts is sent to all new shareholders and is otherwise made available to shareholders via the Company's website unless they have specifically requested that a copy is sent to them. Presentations are given to shareholders and analysts following the announcement of the interim results and the preliminary announcement of the full year results. Interim management statements are issued twice each year in respect of the first and third quarters and, trading updates are issued as well in early January and late June immediately before the Company enters into its close period leading up to the interim and preliminary results announcement. In addition during 2012 an investor day was held for major shareholders and analysts.

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

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

The Company's website ([www.cineworldplc.com](http://www.cineworldplc.com)) provides an overview of the business. Major Group announcements are available on the website and new announcements are published without delay. All major announcements are approved by the

Chairman and Executive Directors and circulated to the Board prior to issue. The Group also has internal and external checks to guard against unauthorised release of information.

### Internal Controls

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

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

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

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

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



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 2012 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 were 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.
- The senior management team meeting to review current and future risks in their particular areas of responsibility and expertise and to confirm the current measures in place to mitigate those risks.
- An established organisational structure with clear lines of responsibility and reporting requirements. Capital investment and all revenue expenditure being regulated by a budgetary process and authorisation levels (manual and systems), with appraisals and post-investment and period end reviews. Policy manuals setting out agreed standards and control procedures which include human resources related policies, information technology and health and safety.
- An established internal audit function headed by an experienced internal auditor who had access to all areas of the cinema operations and prepared reports which were available to the Board and reported regularly to senior management and the Audit Committee.
- Reports from Grant Thornton following their reviews of specific areas of risk as part of their ongoing assistance with the Internal Audit programme.
- An independent external consultant conducting annual health and safety audits and reporting to the Group Health and Safety Committee (comprising of members of the senior management team meeting on a quarterly basis) and the Audit Committee.
- The external auditors providing a supplementary, independent and autonomous perspective on those areas of the internal control system, which they assess in the course of their work. Their findings were reported to both the Audit Committee and the Board.
- The Audit Committee reviewing the risk register, receiving reports on risk management and internal controls and monitoring the overall position and reviewing actions taken to address areas of weakness.
- Each cinema having its own risk register prepared by undertaking an annual review of all risks affecting the cinema and detailing the control measures in place to mitigate those risks with key controls being reviewed by the internal audit function.

- Business Continuity Plans for Head Office and each cinema being in place with components of the Head Office plan being reviewed and tested during the year.
- A specialist company conducting quarterly penetration testing on the Group's IT networks.
- A whistle blowing policy being in place ensuring that members of staff who were concerned about impropriety, financial or otherwise, could raise such matters without fear of victimisation or reprisal.

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

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

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

### **Human Resources**

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

### **Insurance**

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

By order of the Board

**Anthony Bloom**

Chairman

7 March 2013

# Directors' Remuneration Report

## Introduction

I am pleased to present the Remuneration Committee's Report on Directors' remuneration for 2012. It was another satisfactory year for Cineworld, with the Group delivering growth in revenues and profits enabling a 7.3% increase in the full year dividend to be made and executive remuneration decisions were made in this context.

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

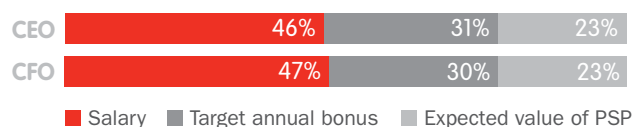
The Companies Act 2006 (the "Act") requires the Auditors to report on certain parts of the report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Act. The report has therefore been divided into separate sections for audited and unaudited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

## UNAUDITED INFORMATION Remuneration Committee

The Company's Remuneration Committee currently comprises four Non-Executive Directors who are all deemed to be independent. Rick Senat joined the Committee on 31 January 2013, while Martina King, David Maloney and Peter Williams were members throughout the 2012 financial period. The Chairman of the Committee is Peter Williams and the Secretary of the Committee is the Company Secretary. The Committee met four times in the financial period and its 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 53% of total remuneration at the target performance level. A more detailed breakdown is provided in the chart below. The arrangements are reviewed on a regular basis.



## Remuneration Package

Executive Directors' remuneration currently comprises an annual salary, a performance-related bonus, a share-based long-term incentive scheme, pension contributions and other benefits.

Following a review in late 2009, the Remuneration Committee decided that, with effect from the 2011 financial year, bonus arrangements should be more heavily weighted towards longer term performance. From 2011 and thereafter, it was agreed that awards for Executive Directors under the Long-term Incentive Plan ("LTIP") would be increased 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 further agreed that the level of the Performance Related Bonus which pays out for target performance would be reduced, reflecting the potential greater benefit yielded by the higher LTIP awards starting to vest. This approach was taken to ensure a smooth transition from the previous to the new arrangements. The changes will be implemented fully for the 2013 financial year for the Chief Executive Officer, and in the 2014 financial year for the Chief Financial Officer as he joined part way through the transitional arrangements.

### Annual Salary

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

### Performance-Related Bonus

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

In prior years, Stephen Wiener was eligible for a bonus payable of up to 100% of salary on achievement by the Group of 95% to 120% of full year budgeted EBITDA. The Finance Director was eligible for a bonus payable of up to 95% of salary on achievement by the Group of 95% to 120% of full year budgeted EBITDA. Bonuses were not payable unless a threshold of 95% of full year budgeted EBITDA was achieved.

For the 2012 financial year, the Remuneration Committee decided that a portion of bonus should be measured against personal performance as measured by agreed strategic objectives. The level of bonus was determined by a matrix of budgeted EBITDA and personal performance levels. No bonuses were payable unless a threshold of 95% of full year budgeted EBITDA was achieved. For "on-target" performance, the arrangement would result in the same level of payment as the previous arrangements. Stephen Wiener was eligible for a maximum bonus opportunity of 100% of base salary and Philip Bowcock was eligible for a maximum bonus opportunity of 95% of salary. The maximum bonus level would only have been payable if both 120% of full year budgeted EBITDA and exceptional performance against personal objectives was achieved.

Details of bonuses paid to Executive Directors for the year to 27 December 2012 are included in the remuneration tables set out below. Bonuses are awarded wholly in cash and these reflected an EBITDA result between threshold and target coupled with an assessment of personal performance against the agreed strategic and other objectives.

For the 2013 financial year, in accordance with the plan to weight bonus arrangements more heavily towards longer term performance, the same arrangements as for 2012 will apply, however, for the Chief Executive Officer, levels of payout for threshold and on target performance have been reduced to reflect the potential increase in rewards under the LTIP along with the level of outperformance at which the maximum bonus is earned. As the Chief Financial Officer joined part way through the transitional arrangements, his performance related bonus opportunity for the 2013 financial year will remain at the same level as for the 2012 period with the reduced opportunity level coming into effect in the 2014 financial year. This deferral will ensure that his potential on target rewards for 2013 are not lower than the prior year.

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

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

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

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

\* EPS is defined as the adjusted pro-forma diluted earnings per share as calculated in Note 5 to the financial statements.

In the past total shareholder return has been considered as an alternative or additional performance measure, but difficulties in identifying appropriate comparator companies has resulted in the Committee deciding to use EPS as the sole performance measure. The Remuneration Committee reviews the operation of the PSP each year and the performance conditions for each grant to ensure they are appropriate for the Company and the prevailing internal and external expectations.

For grants in 2013, the Remuneration Committee has concluded that EPS once again remains the most appropriate performance measure but has decided to revise the performance condition to reflect performance expectations of the Group:

- 30% of the shares under the Award will vest if the compound annual growth in EPS (calculated by comparing the annual EPS for the financial year ending 27 December 2012 with the average annual EPS for the three financial years ending on or around 30 December 2015) is not less than the annual compound increase in the UK Retail Prices Index ("RPI") plus 3% per annum compared and calculated for the same periods;
- 100% of the shares under the Award will vest if the compound annual growth in EPS (calculated by comparing the annual EPS for the financial year ending 27 December 2012 with the average annual EPS for the three financial years ending on or around 30 December 2015) is at least equivalent to the annual compound increase in the UK RPI plus 8% per annum compared and calculated for the same periods; and
- where the compound annual growth in EPS (calculated by comparing the annual EPS for the financial year ending 27 December 2012 with the average annual EPS for the three financial years ending on or around 30 December 2015) is between the two limits specified in (a) and (b) above, the Award shall vest on a straight-line basis between 30% and 100%.

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 200% of annual base salary as at the award date. In line with past practice, the Remuneration Committee does not currently intend that awards to Executive Directors should exceed 100% of their base salary. If it is considering changing this approach, it will consult with key shareholders before doing so. 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. Following an invitation made to all UK employees to participate in March 2012, options were granted to 343 employees over 689,881 shares on 19 April 2012. Details of the grants to, and changes in the interests of, the Executive Directors are set out below.

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

The CSOP was approved by shareholders at the Annual General Meeting ("AGM") in 2010 and the first grant of awards was made in July 2010. A further set of awards have been made each subsequent year following the announcement of the Company's results for the preceding financial year. Only Executive Directors and members of the SMT, decided at the discretion of the Remuneration Committee, participated in the grants which consisted solely of HM Revenue and Customs approved options. In 2012, each participant in the PSP had a proportional part of their PSP award replaced by a HM Revenue and Customs approved share option granted under the CSOP. Details of the awards to the Executive Directors under the CSOP are set out below which were subject to identical performance conditions to the 2012 PSP awards. By legislation, the maximum value of approved share options that may be granted to an individual is £30,000 and no unapproved share options under the CSOP have been granted at any point and there is currently no intention to grant any in the future. Non-Executive Directors, including the Chairman, are not eligible to participate in the CSOP.

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

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

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

#### **Share Retention Policy**

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

Details on current holdings of all the Directors are shown in the Directors' Report on page 36.

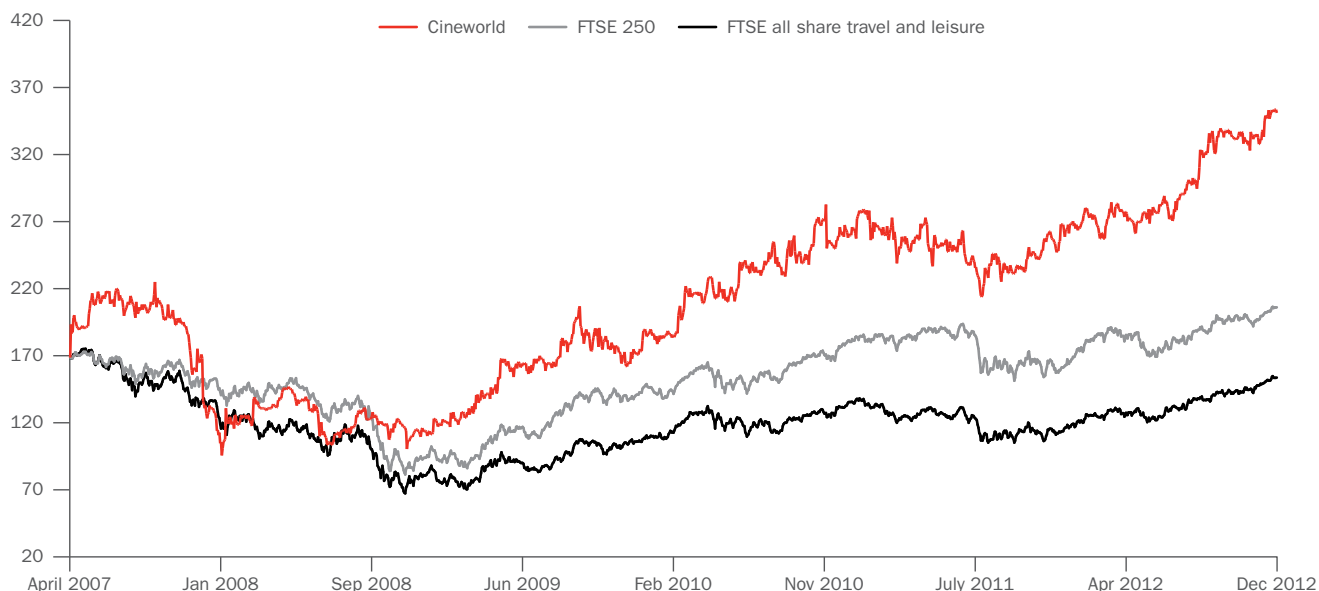


### Performance Graph

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 27 December 2012 was 259.50p and the range during the period 30 December 2011 to 27 December 2012 was 200.00p to 261.25p.

### 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 Chief Executive Officer are 20% of salary. The Chief Financial Officer has elected not to participate in the Group

Personal Pension Plan and instead receives a pension allowance equivalent to 20% of salary. Bonuses are not pensionable.

### Other Benefits

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

### Executive Directors' Contracts

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

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

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

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

## Directors' Remuneration Report

continued

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

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

### Non-Executive Directors' Letters of Appointment

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

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

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

Their appointments were made as follows:

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

## AUDITED INFORMATION

### Aggregated Directors' Remuneration

The total amounts for Directors' remuneration were as follows:

#### Emoluments

##### (i) Executive

Name of Director	2012		2011		2012		2011		2012		2011		2012		2011	
	Fees/Basic salary £000	Fees/Basic salary £000	Performance bonus £000	Performance bonus £000	2012 Benefits £000†	2011 Benefits £000	2012 Other Payments £000	2011 Other Payments £000	2012 Total £000	2011 Total £000	2012 Company contributions to money purchase pension schemes £000	2011 Company contributions to money purchase pension schemes £000	2012 Total including contribution to money purchase pension scheme £000	2011 Total including contribution to money purchase pension scheme £000		
Stephen Wiener	463*	441	278	300	36	34	-	-	777	775	93	88	870	863		
Richard Jones <sup>^</sup>	-	117	-	73††	-	8	-	342**	-	540	-	23	-	563		
Philip Bowcock <sup>^^</sup>	255*	21	140	-	18	2	-	-	413	23	51***	4***	464	27		
	<b>718</b>	<b>579</b>	<b>418</b>	<b>373</b>	<b>54</b>	<b>44</b>	<b>0</b>	<b>342</b>	<b>1,190</b>	<b>1,338</b>	<b>144</b>	<b>115</b>	<b>1,334</b>	<b>1,453</b>		

\* With effect from 1 July 2012, Stephen Wiener's and Philip Bowcock's salaries were increased by 3.6%.

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

<sup>^</sup> Richard Jones left the Company on 17 June 2011.

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

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

<sup>^^</sup> Philip Bowcock joined the Company on 1 December 2011.

\*\*\*Philip Bowcock receives a pension allowance for this amount, but for the purposes of this disclosure it has been shown as a contribution to the pension scheme.

(ii) Non-Executive

Name of Director	2012			2011		
	Fees/Basic salary £000	Reimbursement Of Travelling Expenses £000	Total £000	Fees/Basic salary £000	Reimbursement Of Travelling Expenses £000	Total £000
Anthony Bloom	100	–	100	100	–	100
Martina King	38	–	38	38	–	38
David Maloney	53	–	53	53	1	54
Thomas McGrath*	38	38	76	38	46	84
Rick Senat	38	–	38	38	–	38
Matthew Tooth**	–	–	–	12	–	12
Peter Williams	53	–	53	53	–	53
	<b>320</b>	<b>38</b>	<b>358</b>	<b>332</b>	<b>47</b>	<b>379</b>

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

\*\* Matthew Tooth's Director's fees were payable to the Blackstone Group. He resigned as a Director on 11 May 2011. No compensation was paid in respect of his departure.

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

**Directors' Share and Share Option Scheme Interests**

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

**(a) Cineworld Group Sharesave Scheme**

Name of Director	At 30 Dec 2011	Granted during year	Exercised during year	Lapsed during year	At 27 Dec 2012	Exercise price	Market price at exercise	Exercise period
Stephen Wiener	–	5,232	–	–	<b>5,232</b>	£1.72	–	01/06/15–30/11/15
Philip Bowcock	–	5,232	–	–	<b>5,232</b>	£1.72	–	01/06/15–30/11/15

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

Name of Director	At 30 Dec 2011	Awarded during year	Vested during year	Lapsed during year	At 27 Dec 2012	Exercise price	Market value at date of vesting**	Vesting date or exercise period¶	Gain^^
Stephen Wiener	152,343†	–	152,343	–	–	£Nil	£2.185	26/03/12	£379,181
	109,774§	–	–	–	<b>109,774</b>	£Nil	–	30/03/13–30/09/13	
	153,205^	–	–	–	<b>153,205</b>	£Nil	–	29/03/14–29/09/14	
	–	159,683*	–	–	<b>159,683</b>	£Nil	–	26/03/15–26/09/15	
Philip Bowcock	–	87,500*	–	–	<b>87,500</b>	£Nil	–	26/03/15–26/09/15	

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

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

^ Mid-market closing price of a Cineworld Group plc share the day before grant was £2.08.

\* Mid-market closing price of a Cineworld Group plc share the day before grant was £2.13.

\*\* The price on exercise is the mid-market closing price on the day of exercise. In practice Stephen Wiener's award was settled totally by the issue of new shares.

¶ Subject to satisfaction of the relevant performance conditions (details of which are set on page 45). The awards vesting during the year vested in full. Awards made during the last three years were granted as nil cost options rather than as conditional awards of shares as in the previous year.

^^ The gain has been calculated using the mid-market closing share price on the date of vesting and includes payment of a cash sum equivalent to the dividends that would have been paid on the vested shares in respect of dividend record dates occurring between grant and vesting. The dividend equivalent payments amounted to £46,312 for Stephen Wiener.

**Directors' Remuneration Report**  
continued

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

Name of Director	At 30 Dec 2011	Granted during year	Exercised during year	Lapsed during year	<b>At 27 Dec 2012</b>	Exercise price	Earliest date of exercise†	Expiry date
Stephen Wiener	5,050*	–	–	–	<b>5,050</b>	£1.98	01/07/13	30/06/20
	4,801*	–	–	–	<b>4,801</b>	£2.08	29/03/14	28/02/21
	–	4,694*	–	–	<b>4,694</b>	£2.13	26/03/15	25/03/22
Philip Bowcock	–	4,694*	–	–	<b>4,694</b>	£2.13	26/03/15	25/03/22

\* HM Revenue and Customs approved share options.

† Subject to satisfaction of the relevant performance conditions (details of which are set on page 45).

By order of the Board

**Peter Williams**

Chairman of the Remuneration Committee

7 March 2013



# 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:

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

On behalf of the Board

**Philip Bowcock**  
Chief Financial Officer  
7 March 2013

# Independent Auditor's Report

## to the Members of Cineworld Group plc

We have audited the financial statements of Cineworld Group Plc for the 52 week period ended 27 December 2012 set out on pages 53 to 95. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

### Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 51, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### 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 27 December 2012 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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 39 to 43 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 38, in relation to going concern;
- the part of the Corporate Governance Statement on pages 39 to 43 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

### Mark Summerfield (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

### Chartered Accountants

15 Canada Square  
London E14 5GL

7 March 2013

# Consolidated Statement of Comprehensive Income

for the Period Ended 27 December 2012

	Note	52 week period ended 27 December 2012 £m	52 week period ended 29 December 2011 £m
<b>Revenue</b>	2	<b>358.7</b>	348.0
Cost of sales		<b>(263.9)</b>	(261.5)
<b>Gross profit</b>		<b>94.8</b>	86.5
Other operating income	3	<b>0.3</b>	0.4
Administrative expenses		<b>(50.9)</b>	(44.3)
<b>Operating profit</b>	4	<b>44.2</b>	42.6
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, defined benefit pension scheme indexation gain, and refinancing costs		<b>67.1</b>	63.3
• Depreciation and amortisation	4	<b>(21.5)</b>	(18.9)
• Onerous leases and other non-recurring charges	4	<b>(1.6)</b>	0.5
• Impairments and reversals of impairments	4	<b>(0.3)</b>	–
• Other non-recurring income	4	<b>2.0</b>	–
• Transaction and reorganisation costs	4	<b>(1.1)</b>	(3.9)
• Defined benefit pension scheme past service costs	18	<b>(0.4)</b>	1.7
• Refinancing costs		–	(0.1)
Finance income	7	<b>1.6</b>	1.6
Finance expenses	7	<b>(8.2)</b>	(9.7)
Net change in fair value of cash flow hedges reclassified from equity		<b>1.0</b>	(1.1)
<b>Total finance expense</b>		<b>(7.2)</b>	(10.8)
<b>Net finance costs</b>		<b>(5.6)</b>	(9.2)
Share of loss of jointly controlled entities using equity accounting method, net of tax		<b>(0.1)</b>	–
<b>Profit on ordinary activities before tax</b>		<b>38.5</b>	33.4
Tax charge on profit on ordinary activities	8	<b>(10.8)</b>	(9.5)
<b>Profit for the period attributable to equity holders of the Company</b>		<b>27.7</b>	23.9
<b>Other comprehensive income</b>			
Movement in fair value of cash flow hedge		<b>(0.1)</b>	(0.6)
Foreign exchange translation loss		<b>(0.5)</b>	–
Actuarial gains/(losses) on defined benefit pension schemes		<b>1.0</b>	(1.4)
Income tax on other comprehensive income		<b>(0.9)</b>	1.0
<b>Other comprehensive income for the period, net of income tax</b>		<b>(0.5)</b>	(1.0)
<b>Total comprehensive income for the period attributable to equity holders of the Company</b>		<b>27.2</b>	22.9
Basic earnings per share	5	<b>19.4p</b>	16.8p
Diluted earnings per share	5	<b>19.1p</b>	16.7p

The Notes on pages 57 to 89 are an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

at 27 December 2012

	Note	27 December 2012		29 December 2011	
		£m	£m	£m	£m
<b>Non-current assets</b>					
Property, plant and equipment	10	160.0		124.3	
Goodwill	11	236.7		217.1	
Intangible assets	11	15.7		0.3	
Investments in equity-accounted investee	12	0.7		0.8	
Other receivables	15	1.4		1.4	
Employee benefits	18	4.4		2.0	
Deferred tax assets	13	9.9		12.0	
<b>Total non-current assets</b>		<b>428.8</b>		<b>357.9</b>	
<b>Current assets</b>					
Inventories	14	3.8		2.1	
Trade and other receivables	15	34.3		26.6	
Cash and cash equivalents		10.9		5.5	
<b>Total current assets</b>		<b>49.0</b>		<b>34.2</b>	
<b>Total assets</b>		<b>477.8</b>		<b>392.1</b>	
<b>Current liabilities</b>					
Interest-bearing loans, borrowings and other financial liabilities	16	(8.1)		(6.9)	
Trade and other payables	17	(72.7)		(52.9)	
Current taxes payable		(4.7)		(4.8)	
Provisions	19	(0.3)		(2.3)	
<b>Total current liabilities</b>		<b>(85.8)</b>		<b>(66.9)</b>	
<b>Non-current liabilities</b>					
Interest-bearing loans, borrowings and other financial liabilities	16	(129.7)		(100.0)	
Other payables	17	(53.3)		(53.3)	
Government grants		(1.9)		–	
Provisions	19	(11.1)		(9.3)	
Deferred tax liabilities	13	(7.4)		(2.3)	
<b>Total non-current liabilities</b>		<b>(203.4)</b>		<b>(164.9)</b>	
<b>Total liabilities</b>		<b>(289.2)</b>		<b>(231.8)</b>	
<b>Net assets</b>		<b>188.6</b>		<b>160.3</b>	
<b>Equity attributable to equity holders of the Company</b>					
Share capital	20	1.5		1.4	
Share premium		188.1		171.8	
Translation reserves	20	1.3		1.8	
Hedging reserves	20	(3.5)		(3.4)	
Retained earnings/(deficit)		1.2		(11.3)	
<b>Total equity</b>		<b>188.6</b>		<b>160.3</b>	

These financial statements were approved by the Board of Directors on 7 March 2013 and were signed on its behalf by:

**Stephen Wiener**      **Philip Bowcock**  
Director                      Director



# Consolidated Statement of Changes in Equity

for the Period Ended 27 December 2012

	Issued capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained deficit £m	Total £m
<b>Balance at 30 December 2010</b>	1.4	171.4	1.8	(2.8)	(19.8)	152.0
<b>Profit for the period</b>	–	–	–	–	23.9	23.9
<b>Other comprehensive income</b>						
Movement in fair value of cash flow hedge	–	–	–	(0.6)	–	(0.6)
Retranslation of foreign currency denominated subsidiaries	–	–	–	–	–	–
Actuarial loss on defined benefit scheme	–	–	–	–	(1.4)	(1.4)
Tax recognised on income and expenses recognised directly in equity	–	–	–	–	1.0	1.0
<b>Total other comprehensive income</b>	–	–	–	(0.6)	(0.4)	(1.0)
<b>Contributions by and distributions to owners</b>						
Dividends paid in period	–	–	–	–	(15.2)	(15.2)
Movements due to share-based compensation	–	–	–	–	0.2	0.2
Issue of shares	–	0.4	–	–	–	0.4
<b>Balance at 29 December 2011</b>	1.4	171.8	1.8	(3.4)	(11.3)	160.3
<b>Profit for the period</b>	–	–	–	–	27.7	27.7
<b>Other comprehensive income</b>						
Movement in fair value of cash flow hedge	–	–	–	(0.1)	–	(0.1)
Retranslation of foreign currency denominated subsidiaries	–	–	(0.5)	–	–	(0.5)
Actuarial gain on defined benefit scheme	–	–	–	–	1.0	1.0
Tax recognised on income and expenses recognised directly in equity	–	–	–	–	(0.8)	(0.8)
<b>Total other comprehensive income</b>	–	–	(0.5)	(0.1)	0.2	(0.4)
<b>Contributions by and distributions to owners</b>						
Dividends paid in period	–	–	–	–	(16.0)	(16.0)
Movements due to share-based compensation	–	–	–	–	0.6	0.6
Issue of shares	0.1	16.3	–	–	–	16.4
<b>Balance at 27 December 2012</b>	<b>1.5</b>	<b>188.1</b>	<b>1.3</b>	<b>(3.5)</b>	<b>1.2</b>	<b>188.6</b>

# Consolidated Statement of Cash Flows

for the Period Ended 27 December 2012

	Note	52 week period ended 27 December 2012 £m	52 week period ended 29 December 2011 £m
<b>Cash flow from operating activities</b>			
Profit for the period		27.7	23.9
Adjustments for:			
Financial income	7	(1.6)	(1.6)
Financial expense	7	8.2	9.7
Net change in fair value of cash flow hedges reclassified from equity		(1.0)	1.1
Taxation	8	10.8	9.5
Share of loss of equity-accounted investee		0.1	–
<b>Operating profit</b>		<b>44.2</b>	42.6
Depreciation and amortisation	4	21.5	18.9
Non-cash property charges	4	1.6	(0.5)
Impairments and reversals of impairments		0.3	–
Non-cash pension gain following change in indexation		0.4	(1.7)
Surplus of pension contributions over current service cost	18	(1.6)	(1.6)
Increase in trade and other receivables		(5.3)	(3.0)
(Increase)/decrease in inventories		(1.3)	0.2
Increase in trade and other payables		10.2	2.9
Decrease in provisions and employee benefit obligations		(3.0)	(2.5)
<b>Cash generated from operations</b>		<b>67.0</b>	55.3
Tax paid		(9.4)	(8.3)
<b>Net cash flows from operating activities</b>		<b>57.6</b>	47.0
<b>Cash flows from investing activities</b>			
Interest received		0.1	0.1
Acquisition of subsidiaries net of acquired cash		(43.3)	–
Acquisition of property, plant and equipment		(31.1)	(25.0)
<b>Net cash flows from investing activities</b>		<b>(74.3)</b>	(24.9)
<b>Cash flows from financing activities</b>			
Proceeds from share issue		16.4	0.4
Dividends paid to shareholders		(16.0)	(15.2)
Interest paid		(4.9)	(5.0)
Repayment of bank loans		(5.0)	(5.0)
Proceeds from bank loans		32.3	–
Payment of finance lease liabilities		(0.6)	(0.6)
Refinancing fees		–	(1.8)
<b>Net cash from financing activities</b>		<b>22.2</b>	(27.2)
Net increase in cash and cash equivalents		5.5	(5.1)
Exchange gains/(losses) on cash and cash equivalents		(0.1)	–
Cash and cash equivalents at start of period		5.5	10.6
<b>Cash and cash equivalents at end of period</b>		<b>10.9</b>	5.5

# 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 90 to 95.

The accounting policies set out below have been applied consistently to all periods presented in these Group financial statements, except as described on pages 62 and 64.

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

Information regarding the Group’s business activities, together with the factors likely to affect its future development, performance and position is set out in the Chief Executive and Chief Financial Officer’s Review on pages 12 to 22 and the Risks and Uncertainties section on pages 24 and 25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive and Chief Financial Officer’s Review on pages 12 to 22. 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.

### Going Concern

As highlighted in Note 16 to the financial statements, the Group meets its day to day working capital requirements through its bank facilities which consist of a five year facility of £170m, which comprises of a £70m term loan and £100m revolving facility. As at the period end, £60m of the term loan plus £64m of the revolving facility were drawn down. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group’s products; and (b) the availability of bank finance in the foreseeable future.

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

### 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

**1. Accounting Policies** continued

of the total recognised income and expense and equity movements of equity accounted investees, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

**Transactions Eliminated on Consolidation**

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

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

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

- EBITDA
- Adjusted earnings
- Net debt

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

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

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

Net debt represents net borrowings and derivatives.

**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.

## 1. Accounting Policies continued

### Non-Derivative Financial Instruments

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

#### Trade and Other Receivables

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

#### Cash and Cash Equivalents

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

#### 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: Freehold properties	50 years
• 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
• Motor vehicles	3 years

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

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

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

#### Business Combinations

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

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



**1. Accounting Policies** continued

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.

**Intangible Assets and Goodwill**

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

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

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

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 to 20 years
- Customer loyalty programme 10 years
- Other intangibles 5 to 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

## 1. Accounting Policies continued

balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

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

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

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

### 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.

### Government Grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. They are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset to which they relate.

### 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.

### Other Income

Other income represents rent receivable. Rental income is recognised on a straight-line basis over the life of the lease.

### Expenses

#### Virtual Print Fees

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

**1. Accounting Policies** continued

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

**Operating Lease Payments**

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

**Finance Lease Payments**

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

**Net Financing Costs**

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

**Sale and Leaseback**

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

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.

## **1. Accounting Policies** continued

### **Onerous Leases**

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

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

### **Impairment of Goodwill**

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

Forecasting expected cash flows, and selecting an appropriate discount rate inherently requires estimation, however management has also applied sensitivity analysis to the estimates which does not affect the outcome (see Note 11).

### **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. Management has applied sensitivity analysis to the estimates (see Note 10).

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

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

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

### **Deferred Tax Assets**

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

### **Judgements**

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

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

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

#### **Hedging Arrangements**

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

#### **New Standards and Interpretations**

The Directors considered the impact of other new and revised accounting standards, interpretations or amendments on the Group that are currently endorsed but not yet effective. The Directors anticipate that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards,

### 1. Accounting Policies continued

amendments and interpretations that are expected to impact the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

#### Presentation of items of 'Other Comprehensive Income' (Amendments to IAS 1)

The Amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 and require entities to group items presented in other comprehensive income (OCI) into those that, in accordance with other IFRSs, will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss when specific conditions are met. The existing option to present items of OCI either before tax or net of tax remains unchanged; however, if the items are presented before tax, then the Amendments to IAS 1 require the tax related to each of the two groups of OCI to be shown separately.

#### Amendments to IAS 19 'Employee Benefits' (IAS 19 Amendments)

The IAS 19 Amendments include a number of improvements throughout the Standard. The main changes relate to the defined benefit plan. They:

- eliminate the 'corridor method', requiring all actuarial gains and losses to be recognised in the period in which they arise;
- changes the measurement and presentation of certain components of costs associated with defined benefit plans; and
- enhance the disclosure requirements in respect of defined benefit plans.

The IAS 19 Amendments are effective for periods beginning on or after 1 January 2013 and will apply retrospectively. The Group will be affected as it has two defined benefit plans in place. The net pension expense in profit or loss will be affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest cost based on the net defined benefit asset or liability. The Group's actuarial advisors currently believe that the expected pension expense for 2013 to be increased by £0.2m.

### 2. Operating Segments

Determination and presentation of operating segments:

Prior to the acquisition of Picturehouse, the Group has determined that it had 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 and the supporting note. Subsequent to its acquisition, Picturehouse represented a separate operating segment, however due to the close proximity of the acquisition to the year, the impact on disclosable operating segment information is not considered to be material.

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:

#### Cineworld

	52 week period ended 27 December 2012 Total £m	52 week period ended 29 December 2011 Total £m
<i>Revenue by product and service provided</i>		
Box office	251.6	242.1
Retail	82.3	81.6
Other	22.3	24.3
<b>Total revenue</b>	<b>356.2</b>	<b>348.0</b>

#### Picturehouse

	52 week period ended 27 December 2012 Total £m	52 week period ended 29 December 2011 Total £m
<i>Revenue by product and service provided</i>		
Box office	1.0	–
Retail	0.5	–
Other	1.0	–
<b>Total revenue</b>	<b>2.5</b>	<b>–</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 27 December 2012 £m	52 week period ended 29 December 2011 £m
Rental income	0.3	0.4
	<b>0.3</b>	<b>0.4</b>

### 4. Operating Profit

Included in operating profit for the period are the following:

	52 week period ended 27 December 2012 £m	52 week period ended 29 December 2011 £m
Depreciation	21.4*	18.8*
Impairments (see Note 10)	0.3*	–
Amortisation of intangibles (see Note 11)	0.1*	0.1*
Onerous leases and other non-recurring charges	1.6*	(0.5)*
Other non-recurring income	(2.0)*	–
Transaction and reorganisation costs	1.1*	3.9*
Hire of other assets – operating leases	47.7 <sup>§</sup>	48.8 <sup>§</sup>

\* Included in administrative expenses.

§ £0.3m (2011: £0.7m) is included in administrative costs. The balance is included in cost of sales.

In 2012 there was a net charge of £1.6m (2011: net credit of £0.3) on onerous leases following changes in trading assumptions, and a dilapidations charge of £nil (£2011: net credit of £0.2m).

In 2012 non-recurring income relates to the reclaim of VAT previously paid on exempt sales (2011: £nil).

In 2012, transaction costs relate to the acquisition of Picturehouse. In 2011, transaction costs relate to an attempted acquisition and the majority of reorganisation costs relate to the digital conversion and harmonising audio/visual work across the whole circuit, including redundancy costs.

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

	52 week period ended 27 December 2012 £000	52 week period ended 29 December 2011 £000
Auditors' remuneration:		
Group – audit	208	207
Company – audit	6	6

Amounts received by auditors and their associates in respect of:

– Audit of financial statements pursuant to legislation	214	213
– Audit related assurance services	56	54
– Tax compliance services	64	70
– Tax advisory services	111	187
– Services relating to corporate finance transactions entered into by or on behalf of the Company or the Group	50	163
– All other services	9	11

## Notes to the Consolidated Financial Statements

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### 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 27 December 2012 £m	52 week period ended 29 December 2011 £m
Earnings attributable to ordinary shareholders	<b>27.7</b>	23.9
Adjustments:		
Amortisation of intangible assets	<b>0.2</b>	0.1
Share-based payments	<b>0.9</b>	0.6
Transaction and reorganisation costs	<b>1.1</b>	3.9
Impairments	<b>1.0</b>	–
Defined benefit scheme past service costs	<b>0.4</b>	(1.7)
Dilapidations credit	–	(0.2)
Onerous lease cost/(credit)	<b>1.6</b>	(0.3)
Income relating to VAT reclaim	<b>(2.0)</b>	–
Refinancing (income)/expenses	<b>(1.0)</b>	1.2
Adjusted earnings	<b>29.9</b>	27.5
Add back tax charge	<b>10.8</b>	9.5
Adjusted pro-forma profit before tax	<b>40.7</b>	37.0
Less tax at statutory rate 24.5% (2011: 26.0%)	<b>(10.0)</b>	(9.6)
Adjusted pro-forma profit after tax	<b>30.7</b>	27.4
	52 week period ended 27 December 2012 Number of shares (m)	52 week period ended 29 December 2011 Number of shares (m)
Weighted average number of shares in issue	<b>143.1</b>	142.0
Basic and adjusted earnings per share denominator	<b>143.1</b>	142.0
Dilutive options	<b>1.6</b>	0.9
Diluted earnings per share denominator	<b>144.7</b>	142.9
Shares in issue at period end	<b>149.6</b>	142.3
	Pence	Pence
Basic earnings per share	<b>19.4</b>	16.8
Diluted earnings per share	<b>19.1</b>	16.7
Adjusted pro-forma basic earnings per share	<b>21.5</b>	19.3
Adjusted pro-forma diluted earnings per share	<b>21.2</b>	19.2

## 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	
	2012	2011
Head office	215	155
Cinemas	5,226	4,517
	<b>5,441</b>	4,672

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 27 December 2012 £m	52 week period ended 29 December 2011 £m
	Wages and salaries	47.8
Social security costs	2.8	3.1
Other pension costs – Defined contribution	0.4	0.4
Share-based payments (see Note 18)	0.9	0.6
	<b>51.9</b>	52.3

See pages 44 to 50 for Directors' remuneration.

## 7. Finance Income and Expense

	52 week period ended 27 December 2012 £m	52 week period ended 29 December 2011 £m
	Interest income	0.1
Expected return on defined benefit pension plan assets (Note 18)	1.5	1.5
<b>Finance income</b>	<b>1.6</b>	1.6
Interest expense on bank loans and overdrafts	4.9	5.3
Amortisation of financing costs	0.4	0.7
Unwind of discount on onerous lease provision	0.8	1.2
Finance cost for defined benefit pension scheme (Note 18)	1.3	1.4
Interest charge as a result of change in discount rate relating to onerous lease provisions	0.4	0.6
Other financial costs	0.4	0.5
<b>Finance expense</b>	<b>8.2</b>	9.7
Ineffectiveness recognised in profit and loss arising from cash flow hedges	–	1.1
Amounts reclassified from equity to profit and loss in respect of cash flow hedges	(1.0)	–
<b>Total financial expense</b>	<b>7.2</b>	10.8

## Notes to the Consolidated Financial Statements

continued

### 7. Finance Income and Expense continued

Recognised within other comprehensive income:

	52 week period ended 27 December 2012 £m	52 week period ended 29 December 2011 £m
Movement in fair value of interest rate swap	(0.1)	(0.6)
Foreign exchange translation loss	(0.5)	–
<b>Finance expense</b>	<b>(0.6)</b>	<b>(0.6)</b>

### 8. Taxation

Recognised in the Income Statement

	52 week period ended 27 December 2012 £m	52 week period ended 29 December 2011 £m
<b>Current tax expense</b>		
Current year	10.0	8.5
Adjustments in respect of prior years	(0.6)	(3.3)
<b>Total current tax expense</b>	<b>9.4</b>	<b>5.2</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	1.4	4.3
<b>Total tax charge in income statement</b>	<b>10.8</b>	<b>9.5</b>

#### Reconciliation of Effective Tax Rate

	52 week period ended 27 December 2012 £m	52 week period ended 27 December 2011 £m
<b>Profit before tax</b>	<b>38.5</b>	<b>33.4</b>
Tax using the UK corporation tax rate of 24.5% (2011: 26.5%)	9.4	8.9
Differences in overseas tax rates	(0.1)	(0.1)
Permanently disallowed depreciation	1.0	1.0
Other permanent differences	0.4	2.4
Adjustments in respect of prior years	(0.6)	(3.3)
Effect of change in statutory rate to 23% (2011: 25%) on deferred tax	0.7	0.6
<b>Total tax charge in income statement</b>	<b>10.8</b>	<b>9.5</b>

During the period there was a deferred tax charge of £0.8m (2011: credit of £1.0m) recognised directly in equity. This relates to the actuarial gain (2011: loss) on the defined benefit scheme and the movement in the fair value of the cash flow hedge on part of the Group's bank loans; see Note 13.

#### Factors that may affect future tax charges

As at 27 December 2012 the Group had potential tax assets relating to the following:

- other non-trading losses of approximately £2.6m (2011: £2.6m)
- capital losses of approximately £7.6m (2011: £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 23% 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 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012, and a further reduction to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012.

## 9. Business Combinations

On 6 December 2012 the Group obtained control of City Screen Limited, its subsidiary undertakings and joint ventures held by City Screen Limited (collectively referred to as "City Screen"). City Screen trade as the "Picturehouse" group of cinemas. Control was obtained by acquiring 100% of the shares and voting interests in the acquired entities. Headline consideration was £47.3m which when adjusted for certain provisions of the purchase agreement resulted in a fair value of consideration transferred of £43.7m.

In the three weeks to 27 December 2012, City Screen contributed revenue of £2.5m and profit after tax of £0.1m. If the acquisition had occurred on 30 December 2011 (the first day of the current period), management estimates that consolidated revenue would have been £390.3m, and consolidated profit after tax for the period would have been £28.7m. In determining these amounts, management have assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on 30 December 2011.

### Consideration transferred

	£m
<b>Fair value of consideration transferred</b>	
Cash	43.7

### Identifiable assets acquired and liabilities assumed

	Provisional £m
<b>Fair value of total net identifiable assets</b>	
Land and buildings (including leasehold improvements)	20.5
Plant and machinery	2.6
Fixtures and fittings	1.6
Brand and Customer loyalty programme	15.5
Inventory	0.3
Trade receivables	1.2
Other receivables	1.6
Cash and cash equivalents	0.4
Loans and borrowings	(4.3)
Government grants	(1.9)
Deferred tax liabilities	(5.0)
Trade and other payables	(8.4)
<b>Total net identifiable assets</b>	<b>24.1</b>

Due to the close proximity of acquisition to the year end, management are still in the process of identifying and separating acquired intangible assets and as a result the fair value of the acquired net identifiable assets were measured on a provisional basis.

Intangible assets have currently been recognised in respect of brand and the customer loyalty programme. The value of the brand is subject to professional valuation which is expected to be complete prior to the 2013 interim results. Any subsequent change in valuation of intangible assets will result in a reallocation between intangible assets and goodwill.

As at the year end, certain aspects of the acquisition were being reviewed by the Office of Fair Trading. The result of their findings may result in changes to the fair value of assets recognised at acquisition. On this basis property, plant and equipment, working capital and other items were also measured on a provisional basis.

Trade receivables comprise gross contractual amounts due of £1.2m, of which all was expected to be collectable at the acquisition date.

### Goodwill

	£m
<b>Goodwill recognised as a result of the transaction</b>	
Fair value of consideration transferred	43.7
Less:	
Fair value of net identifiable assets	(24.1)
<b>Goodwill</b>	<b>19.6</b>

Due to the continuing exercise to identify acquired intangible assets, management believe that goodwill is likely to include potential intangible assets in respect of supplier contracts and other agreements. Residual goodwill represents the skills and industry knowledge of City Screen's management and work force, synergies expected to be realised post acquisition and the future value expected to be generated by City Screen from its pipeline. None of the goodwill is expected to be deductible for income tax purposes.



## Notes to the Consolidated Financial Statements

continued

### 9. Business Combinations continued

#### Transactions separate from the acquisition

The Group incurred acquisition related costs of £1.1m relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in Transaction and reorganisation costs in the Group's consolidated statement of comprehensive income.

Share issue costs incurred during the placement of shares to raise funds for the acquisition have been deducted from the proceeds of the issue of the related shares.

### 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 30 December 2010</b>	90.4	46.1	48.6	–	185.1
Additions	0.8	16.6	8.9	2.6	28.9
Disposals	–	(7.2)	(10.8)	–	(18.0)
Transfers	2.6	–	–	(2.6)	–
Effects of movement in foreign exchange	(0.1)	–	(0.2)	–	(0.3)
<b>Balance at 29 December 2011</b>	93.7	55.5	46.5	–	195.7
Additions due to acquisition	20.5	2.6	1.6	–	24.7
Additions	1.7	11.6	17.4	2.1	32.8
Disposals	(0.5)	(6.8)	(3.8)	–	(11.1)
Transfers	2.1	(0.1)	–	(1.9)	0.1
Effects of movement in foreign exchange	(0.1)	(0.1)	(0.4)	–	(0.6)
<b>Balance at 27 December 2012</b>	<b>117.4</b>	<b>62.7</b>	<b>61.3</b>	<b>0.2</b>	<b>241.6</b>
<b>Accumulated depreciation and impairment</b>					
<b>Balance at 30 December 2010</b>	20.9	21.3	28.7	–	70.9
Charge for the period	5.0	6.4	7.4	–	18.8
Disposals	–	(7.2)	(10.8)	–	(18.0)
Effects of movement in foreign exchange	(0.1)	–	(0.2)	–	(0.3)
<b>Balance at 29 December 2011</b>	25.8	20.5	25.1	–	71.4
Charge for the period	5.0	7.2	9.2	–	21.4
Disposals	(0.5)	(6.8)	(3.8)	–	(11.1)
Effects of movement in foreign exchange	(0.1)	–	(0.3)	–	(0.4)
Impairments	0.1	0.2	–	–	0.3
<b>Balance at 27 December 2012</b>	<b>30.3</b>	<b>21.1</b>	<b>30.2</b>	<b>–</b>	<b>81.6</b>
<b>Net book value</b>					
At 30 December 2010	69.5	24.8	19.9	–	114.2
At 29 December 2011	67.9	35.0	21.4	–	124.3
<b>At 27 December 2012</b>	<b>87.1</b>	<b>41.6</b>	<b>31.1</b>	<b>0.2</b>	<b>160.0</b>

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

## 10. Property, Plant and Equipment continued

Of the £32.8m (2011: £28.9m) of additions during the year, £8.5m (2011: £14.1m) relates to the acquisition and installation of digital projection equipment, £4.9m (2011: £0.7m) relates to the installation of IMAX and £6.8m (2011: £0.5m) relates to the Customer First Programme.

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

	27 December 2012 £m	29 December 2011 £m
<b>The net book value of assets held under finance leases comprised:</b>		
Opening net book value	4.7	4.9
Additions due to acquisition	0.8	–
Depreciation charge	(0.2)	(0.2)
<b>Closing net book value</b>	<b>5.3</b>	<b>4.7</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. Additions during the year are as a result of the acquisition of City Screen Limited. The acquired assets held under finance leases relate to digital projection equipment.

Interest of £15,000 (2011: £40,000) has been capitalised during the period which relates to the construction of a new site.

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

### Impairment

The Group considers each Cinema site to be a cash generating unit (“CGU”) and each CGU is reviewed annually for indicators of impairment. In assessing whether an asset has been impaired, the carrying amount of the CGU is compared to its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. In the absence of any information about the fair value of a CGU, the recoverable amount is deemed to be its value in use. The Group estimates value in use using a discounted cash flow model, which applies a pre-tax discount rate of 8.4% (2011: 9.0%). The future cash flows are based on financial budgets approved by management covering a one year period. Cash flows beyond the first period have been extrapolated using the assumptions used in the impairment model (see Note 11). The £0.3m impairment loss was caused by trading not reaching expectations for the foreseeable future in relation to two cinema 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	0.1
Impairment if discount rate was increased by 1%	0.1

## 11. Intangible Assets

	Goodwill £m	Brand and other intangibles £m	Total £m
<b>Cost</b>			
Balance at 30 December 2010	224.8	1.2	226.0
Balance at 29 December 2011	224.8	1.2	226.0
Acquisition of subsidiary undertakings	19.6	15.5	35.1
<b>Balance at 27 December 2012</b>	<b>244.4</b>	<b>16.7</b>	<b>261.1</b>
<b>Accumulated amortisation and impairment</b>			
Balance at 30 December 2010	7.7	0.8	8.5
Amortisation	–	0.1	0.1
Balance at 29 December 2011	7.7	0.9	8.6
Amortisation	–	0.1	0.1
<b>Balance at 27 December 2012</b>	<b>7.7</b>	<b>1.0</b>	<b>8.7</b>
<b>Net book value</b>			
At 30 December 2010	217.1	0.4	217.5
At 29 December 2011	217.1	0.3	217.4
<b>At 27 December 2012</b>	<b>236.7</b>	<b>15.7</b>	<b>252.4</b>

### Impairment Testing

Each individual cinema is considered to be a CGU. However, for the purpose of testing goodwill for impairment, it is acceptable under IAS 36 to group CGUs.

The ex-Cine-UK and ex-UGC (including Dublin) businesses are now fully integrated, meaning that goodwill is now monitored on a Cineworld wide level. The Picturehouse CGUs are considered together as a separate group and will be tested for goodwill impairment on this basis. Management considered the fair value of acquired net assets at the date of acquisition which was in close proximity to the year end. As the fair value of acquired net assets was measured on a provisional basis, no further impairment testing has been carried out since the date of acquisition.

The following assumptions have been applied to both individual CGUs when testing for impairment of PPE and groups of CGUs for goodwill impairment testing where applicable.

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

The key assumptions behind the impairment review are as follows:

2013 forecast earnings before interest, tax, depreciation, and amortisation (“EBITDA”) was used as the basis of the future cash flow calculation. This is adjusted to add back rent (EBITDAR) and essential capex on existing sites. In line with long-term industry growth rates, EBITDAR is assumed to grow at 3% per annum.

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

The Group has discounted forecast flows using a pre-tax discount rate of 8.4% (2011: 9.0%) being a market participant’s discount rate. This is considered to reflect the risks associated with the relevant cash flows.

### 11. Intangible Assets continued

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 27 December 2012 £m	52 week period ended 29 December 2011 £m
Administrative expenses	0.1	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.

	27 December 2012 £m	29 December 2011 £m
Cost	0.9	0.9
Share of post acquisition reserves	(0.1)	(0.1)
	0.8	0.8
Share of post tax profit/(loss)	(0.1)	–
Carrying value	0.7	0.8

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

	27 December 2012 £m	29 December 2011 £m
Current assets	23.4	16.3
Non-current assets	1.9	1.7
Current liabilities	(16.6)	(17.8)
Non-current liabilities	(9.0)	(0.4)
Net (liabilities)/assets	(0.3)	(0.2)
Income	53.4	52.1
Expenses	(53.6)	(52.0)
Net profit/( loss)	(0.2)	0.1

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.

## Notes to the Consolidated Financial Statements

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### 13. Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	27 December	29 December	27 December	29 December	27 December	29 December
	2012	2011	2012	2011	2012	2011
	£m	£m	£m	£m	£m	£m
Property, plant and equipment	0.4	1.4	(3.3)	(2.3)	(2.9)	(0.9)
Intangible assets	–	–	(3.6)	(0.1)	(3.6)	(0.1)
Employee benefits	0.4	0.3	(1.0)	(0.5)	(0.6)	(0.2)
Reverse premiums	2.2	2.5	–	–	2.2	2.5
Effect of straight lining operating lease accruals	6.6	7.3	–	–	6.6	7.3
Interest rate swap	0.8	1.1	–	–	0.8	1.1
<b>Tax assets/(liabilities)</b>	<b>10.4</b>	<b>12.6</b>	<b>(7.9)</b>	<b>(2.9)</b>	<b>2.5</b>	<b>9.7</b>
Set off tax	(0.5)	(0.6)	0.5	0.6	–	–
<b>Net tax assets/(liabilities)</b>	<b>9.9</b>	<b>12.0</b>	<b>7.4</b>	<b>(2.3)</b>	<b>2.5</b>	<b>9.7</b>

See Note 8 for details of unrecognised tax assets.

Deferred taxation provided for in the financial statements at the period end represents provision at 23% (2011: 25%) on the above items. The effect of the change in statutory rate from 25% to 23% resulted in a £0.6m charge recognised in income (2011: 27% to 25% £0.7m). In line with government announcements (see Note 8), a further reduction in the net deferred asset is expected.

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

Deferred tax assets and liabilities are attributable to the following:

	29 December	Recognised	Recognised	Recognised	27 December
	2011	in income	in equity	of subsidiary	2012
	£m	£m	£m	undertakings	£m
				£m	
Property, plant and equipment	(0.9)	(0.6)	–	(1.4)	(2.9)
Intangible assets	(0.1)	0.1	–	(3.6)	(3.6)
Employee benefits	(0.2)	(0.2)	(0.2)	–	(0.6)
Reverse premiums	2.5	(0.3)	–	–	2.2
Effect of straight lining operating lease accruals	7.3	(0.7)	–	–	6.6
Interest rate swap	1.1	0.3	(0.6)	–	0.8
<b>Tax assets/(liabilities)</b>	<b>9.7</b>	<b>(1.4)</b>	<b>(0.8)</b>	<b>(5.0)</b>	<b>2.5</b>

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



#### 14. Inventories

	27 December 2012 £m	29 December 2011 £m
Goods for resale	3.8	2.1
	<b>3.8</b>	2.1

Goods for resale recognised in cost of sales in the period amounted to £18.0m (2011: £17.6m).

#### 15. Trade and Other Receivables

	27 December 2012 £m	29 December 2011 £m
<b>Current</b>		
Trade receivables	4.5	1.9
Other receivables	–	0.1
Prepayments and accrued income	29.8	24.6
	<b>34.3</b>	26.6
<b>Non-current</b>		
Land lease premiums	0.9	0.9
Loan to jointly controlled entity	0.5	0.5
	<b>1.4</b>	1.4

#### 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.

	27 December 2012 £m	29 December 2011 £m
<b>Non-current liabilities</b>		
Interest rate swaps	2.2	2.8
Unsecured bank loan, less issue costs of debt to be amortised	121.3	91.1
Liabilities under finance leases	6.2	6.1
	<b>129.7</b>	100.0
<b>Current liabilities</b>		
Interest rate swaps	1.3	1.7
Unsecured bank loans, less issue costs of debt to be amortised	6.0	4.6
Liabilities under finance leases	0.8	0.6
	<b>8.1</b>	6.9

## Notes to the Consolidated Financial Statements

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

The terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	27 December 2012		29 December 2011	
				Face value £m	Carrying amount £m	Face value £m	Carrying amount £m
Unsecured bank loan – 1	GBP	LIBOR +1.95%	2016	124.0	123.1	97.0	95.7
Unsecured bank loan – 2	GBP	LIBOR +5.00%	2014	1.2	1.2	–	–
Unsecured bank loan – 3	GBP	LIBOR +3.50%	2015	0.7	0.7	–	–
Unsecured bank loan – 4	GBP	LIBOR +5.00%	2016	1.4	1.4	–	–
Unsecured bank loan – 5	GBP	LIBOR +5.00%	2016	0.8	0.8	–	–
Unsecured bank loan – 6	GBP	5.00%	2022	0.1	0.1	–	–
Finance lease liability – 1	GBP	7.2%	2029	6.6	6.6	6.7	6.7
Finance lease liability – 2	GBP	4.5%	2015	0.2	0.2	–	–
Finance lease liability – 3	GBP	4.5%	2014	0.1	0.1	–	–
Finance lease liability – 4	GBP	3.5%	2014	0.1	0.1	–	–
<b>Total interest bearing liabilities</b>				<b>135.2</b>	<b>134.3</b>	103.7	102.4

See Note 21 for bank loan maturity analysis.

#### Finance Lease Liabilities

The maturity of obligations under finance leases is as follows:

	27 December 2012 £m	29 December 2011 £m
Within one year	0.8	0.6
Between one and two years	0.8	0.6
In the second to fifth years	1.9	1.9
Over five years	8.5	9.1
	<b>12.0</b>	12.2
Less future finance charges	<b>(5.0)</b>	(5.5)
	<b>7.0</b>	6.7

#### 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 30 December 2010</b>	10.6	(101.8)	(6.8)	(2.8)	(100.8)
Cash flows	(5.1)	6.8	0.6	–	2.3
Non-cash movement	–	(0.7)	(0.5)	(1.7)	(2.9)
<b>At 29 December 2011</b>	5.5	(95.7)	(6.7)	(4.5)	(101.4)
Acquisition of subsidiary undertakings	0.4	(3.9)	(0.4)	–	(3.9)
Cash flows	5.0	(27.3)	0.6	–	(21.7)
Non-cash movement	–	(0.4)	(0.5)	1.0	0.1
<b>At 27 December 2012</b>	<b>10.9</b>	<b>(127.3)</b>	<b>(7.0)</b>	<b>(3.5)</b>	<b>(126.9)</b>

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

## 17. Trade and Other Payables

	27 December 2012 £m	29 December 2011 £m
<b>Current</b>		
Trade payables	29.8	15.2
Other payables	4.7	5.0
Accruals and deferred income	38.2	32.7
	<b>72.7</b>	<b>52.9</b>
<b>Non-current</b>		
Accruals and deferred income	53.3	53.3

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.

In 2012 an allowance of £0.4m has been made for the estimated cost of equalising member benefits correctly. This has been recognised as a past service cost in the Statement of Comprehensive Income, and increased the Scheme liabilities.

In 2011 there was a £1.7m reduction in the value placed on the Scheme's liability which was recognised as a negative past service cost in the Statement of Comprehensive Income. This resulted from the UK Government's announcement in summer 2010, and the consultation with the members in October 2011, that the inflation index to be used to derive statutory pension increases 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 was expected to be less than RPI over the long-term which meant that the Scheme liabilities would reduce.

The Company made contributions of £1.6m during 2012 (2011: £1.6m).

### Adelphi-Carlton Limited Contributory Pension Plan

The Adelphi-Carlton Limited Contributory Pension Plan is closed to new entrants and therefore the current service cost is £nil. The trustees of the Adelphi-Carlton Contributory Pension Plan have not agreed that any surplus on the plan can be refunded to the Company. Accordingly the surplus has not been recognised. The Scheme has a surplus of £0.3m as at 27 December 2012 (2011: £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 27 December 2012. Total contributions for the 52 weeks ended 29 December 2011 and 52 weeks ended 27 December 2012 were £nil and £nil, respectively.

**Notes to the Consolidated Financial Statements**

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**18. Employee Benefits** continued

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

	<b>27 December 2012 £m</b>	29 December 2011 £m
MGM Pension scheme	4.4	2.0
<b>Net surplus/(deficit)</b>	<b>4.4</b>	<b>2.0</b>

**MGM Pension Scheme**

	<b>27 December 2012 £m</b>	29 December 2011 £m
Present value of funded defined benefit obligations	<b>(28.1)</b>	(28.4)
Fair value of plan assets	<b>32.5</b>	30.4
<b>Surplus in scheme</b>	<b>4.4</b>	<b>2.0</b>

When the members' benefits have been fully paid, the rules of the scheme permit any surplus to revert to the Employer (the Group). Therefore the surplus on the scheme has been recognised as an asset.

Movements in present value of defined benefit obligation:

	<b>52 week period ended 27 December 2012 £m</b>	52 week period ended 29 December 2011 £m
At beginning of period	<b>(28.4)</b>	(28.3)
Interest cost	<b>(1.3)</b>	(1.4)
Current service cost	–	–
Contributions by scheme participants	–	–
Actuarial gain/(loss)	<b>0.8</b>	(1.7)
Benefits paid	<b>1.2</b>	1.3
Past service cost (RPI to CPI change)	–	1.7
Past service cost (member benefits equalisation)	<b>(0.4)</b>	–
<b>At end of period</b>	<b>(28.1)</b>	<b>(28.4)</b>

Movements in fair value of plan assets:

	<b>52 week period ended 27 December 2012 £m</b>	52 week period ended 29 December 2011 £m
At start of period	<b>30.4</b>	28.3
Expected return on plan assets	<b>1.5</b>	1.5
Actuarial gains	<b>0.2</b>	0.3
Contributions by employer	<b>1.6</b>	1.6
Contributions by members	–	–
Benefits paid	<b>(1.2)</b>	(1.3)
<b>At end of period</b>	<b>32.5</b>	<b>30.4</b>

## 18. Employee Benefits continued

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

	52 week period ended 27 December 2012 £m	52 week period ended 29 December 2011 £m
Interest on defined benefit pension plan obligation	(1.3)	(1.4)
Expected return on defined benefit pension plan assets	1.5	1.5
Past service cost (RPI to CPI change)	–	1.7
Past service cost (member benefits equalisation)	(0.4)	–
<b>Total</b>	<b>(0.2)</b>	<b>1.8</b>

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

	52 week period ended 27 December 2012 £m	52 week period ended 29 December 2011 £m
Financial expenses	(1.3)	(1.4)
Financial income	1.5	1.5
Administrative expenses	(0.4)	1.7
<b>Total</b>	<b>(0.2)</b>	<b>1.8</b>

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

	52 week period ended 27 December 2012 £m	52 week period ended 29 December 2011 £m
Actuarial gains/(losses) recognised in the period	1.0	(1.4)
Cumulative amount at start of period	(1.1)	0.3
<b>Cumulative amount at end of period</b>	<b>(0.1)</b>	<b>(1.1)</b>

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

	Long-term rate of return expected at 27 December 2012	52 week period ended 27 December 2012 £m	Long-term rate of return expected at 29 December 2011	52 week period ended 29 December 2011 £m
Equities	8.00%	5.0	8.00%	14.0
Property	7.00%	–	7.00%	0.4
Index linked bonds	2.60%	8.3	3.00%	7.7
Corporate bonds	3.80%	3.3	4.50%	6.8
Absolute return funds	6.00%	15.7		
Other	1.00%	0.2	1.80%	1.5
		<b>32.5</b>		<b>30.4</b>

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



## Notes to the Consolidated Financial Statements

continued

### 18. Employee Benefits continued

	52 week period ended 27 December 2012 £m	52 week period ended 29 December 2011 £m
Expected return on scheme assets	1.5	1.5
Actuarial gains	0.2	0.3
<b>Actual return on plan assets</b>	<b>1.7</b>	<b>1.8</b>

Principal actuarial assumptions (expressed as weighted averages):

	52 week period ended 27 December 2012 %	52 week period ended 29 December 2011 %
RPI Inflation	3.0	3.4
CPI Inflation	2.3	2.4
Rate of general long-term increase in salaries	4.0	4.4
Rate of increase to pensions in payment	2.0–3.3	2.0–3.4
Discount rate for scheme liabilities	4.5	4.8
Expected rate of return on assets	5.2	5.6

The mortality assumptions are based on the recent actual mortality experience of members within the Scheme and the assumptions also allow for expected future mortality improvements. The assumptions are that a member who retires in 2032 at age 65 will live on average for a further 23.5 years after retirement if they are male and for a further 25.9 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 27 December 2012 £m	52 week period ended 29 December 2011 £m	53 week period ended 30 December 2010 £m	52 week period ended 31 December 2009 £m	52 week period ended 25 December 2008 £m
Present value of defined benefit obligation	(28.2)	(28.4)	(28.3)	(26.6)	(24.4)
Fair value of plan assets	32.5	30.4	28.3	25.9	21.8
<b>Surplus/(deficit)</b>	<b>4.3</b>	<b>2.0</b>	<b>–</b>	<b>(0.7)</b>	<b>(2.6)</b>

#### Experience Adjustments

	52 week period ended 27 December 2012 £m	52 week period ended 29 December 2011 £m	53 week period ended 30 December 2010 £m	52 week period ended 31 December 2009 £m	52 week period ended 25 December 2008 £m
Experience gain/(loss) on plan assets	0.2	0.3	0.7	2.5	(4.4)
Experience gain/(loss) on plan liabilities	1.0	–	0.2	2.7	–

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

#### Defined Contribution Plans

The Group operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £0.4m (2011: £0.4m).

#### Share-Based Payments

As at 27 December 2012 there were three types of share option and share schemes: the Employee Sharesave Scheme, the Cineworld Group Performance Share Plan and the Company Share Option Plan.

Grants were made under the sharesave scheme in 2007, 2008 and 2012.

## **18. Employee Benefits** continued

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 29 December 2011**

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

Awards over 30,496 shares lapsed in 2011.

### **Period ended 27 December 2012**

A charge of £86,000 was recorded in the income statement for the period in respect of the 2012 Sharesave scheme grant.

Awards over 38,699 shares lapsed in 2012.

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

### **Period ended 29 December 2011**

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 30 December 2010 and the EPS for the financial year ending 26 December 2013) 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 30 December 2010 and the EPS for the financial year ending 26 December 2013) is at least 9.2%; and
- Where the average annual growth in EPS (calculated by comparing the EPS for the financial year ended 30 December 2010 and the EPS for the financial year ending 26 December 2013) 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 29 March 2011. Under these grants, awards over 395,961 shares were made in total. Awards over 258,398 shares were made with the performance conditions set out above. Further awards over 137,563 shares were made which will vest after three years subject to continued employment only, with no specified performance conditions attached.

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

### **Period ended 27 December 2012**

Further grants were made under the PSP scheme on 26 March 2012 and 15 June 2012. Under these grants, awards over 947,681 shares were made in total. Awards over 719,588 shares were made with the same performance conditions as the 2011 grant, but with reference to the financial years 29 December 2011 to 25 December 2014. Further awards over 228,093 shares were made which will vest after three years subject to continued employment only, with no specified performance conditions attached.

Awards over 68,948 shares lapsed during 2012.

EPS for the 2012 grant was defined as adjusted pro-forma diluted earnings per share as calculated in Note 5 to the financial statements.

A charge of £811,000 was recorded in the income statement in respect of the 2009, 2010, 2011 and 2012 PSP schemes.

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

### **Period ended 29 December 2011**

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

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

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

### **Period ended 27 December 2012**

Further grants were made under the CSOP on 26 March 2012. Under these grants awards over 70,410 shares were made in total. Awards over 9,388 shares were made with the same conditions as the 2012 PSP grant. Awards over 61,022 were made with no performance conditions attached.

## Notes to the Consolidated Financial Statements

continued

### 18. Employee Benefits continued

Awards over 16,766 shares lapsed during 2012.

EPS for the 2012 grant was defined as adjusted pro-forma diluted earnings per share as calculated in Note 5 to the financial statements.

A charge of £26,000 was recorded in the income statement in respect of the 2010, 2011 and 2012 CSOP schemes.

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

	<b>Weighted average exercise price 2012 (£) Equity settled</b>	<b>Number of options 2012 Equity settled</b>	Weighted average exercise price 2011 (£) Equity settled	Number of options 2011 Equity settled
Outstanding at the beginning of the year	<b>0.33</b>	<b>1,093,643</b>	0.40	1,605,515
Exercised in shares during the year	<b>0.17</b>	<b>(420,576)</b>	0.62	(607,096)
Settled in cash during the year	–	–	0.00	(169,856)
Granted during the year	<b>0.79</b>	<b>1,707,972</b>	0.35	472,777
Lapsed during the year	<b>0.81</b>	<b>(124,413)</b>	0.27	(207,697)
Outstanding at the end of the year	<b>0.68</b>	<b>2,256,626</b>	0.33	1,093,643
Exercisable at the end of the year	–	–	0.93	68,946

The average share price during 2012 was £2.26 (2011: £2.00).

Assumptions relating to grants of share options in 2011 were:

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

Assumptions relating to grants of share options in 2012 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 2012	2.13	nil	44	3.0	5.3	0.90	1.82
	15 June 2012	2.15	nil	44	3.0	5.3	0.90	1.82
CSOP	26 March 2012	2.13	2.13	44	3–10 years	5.3	0.90	0.46

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

	<b>52 week period ended 27 December 2012 £m</b>	52 week period ended 29 December 2011 £m
Share-based payments expenses	<b>0.9</b>	0.6

## 19. Provisions

	Property provisions £m	Reorganisation provision	Total provisions £m
Balance at 29 December 2011	10.2	1.4	11.6
Non-current	0.9	1.4	2.3
Current	9.3	–	9.3
<b>Total</b>	<b>10.2</b>	<b>1.4</b>	<b>11.6</b>
Balance at 29 December 2011	10.2	1.4	11.6
Provisions made/(released) during the period	1.6	(1.4)	0.2
Effect of change in discount rate during the period	0.4	–	0.4
Utilised against rent during the period	(1.6)	–	(1.6)
Unwound against interest during the period	0.8	–	0.8
<b>Balance at 27 December 2012</b>	<b>11.4</b>	<b>–</b>	<b>11.4</b>
Current	0.3	–	0.3
Non-current	11.1	–	11.1
<b>Total</b>	<b>11.4</b>	<b>–</b>	<b>11.4</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 8.4% (2011: 9.0%). The reorganisation provision related to the digital conversion and harmonising audio/visual work across the whole circuit.

	27 December 2012 £m	29 December 2011 £m
<b>Expected timing for utilisation of property provisions</b>		
Analysed as:		
Within one year	0.3	0.9
Between one and two years	0.5	0.8
In the second to fifth years	1.5	2.9
Over five years	9.1	5.6
	<b>11.4</b>	<b>10.2</b>

## 20. Capital and Reserves

### Share Capital

	27 December 2012 £m	29 December 2011 £m
<b>Cineworld Group plc</b>		
<i>Allotted, called up and fully paid</i>		
149,619,268 (2011: 142,348,693) ordinary shares of £0.01 each	1.5	1.4

During the year a total of 7,270,575 ordinary shares of nominal value £0.01 were issued. 343,205 (2011: 221,099) ordinary shares were part of the performance share plan and 77,371 (2011: 385,997) were part of the employee sharesave scheme. On 7 December 2012 6,849,999 ordinary shares were issued and the proceeds used to repay borrowings incurred in connection with the acquisition of Picturehouse. Total consideration of £16,469,000 (2011: £379,000) was received. This is after deducting transaction costs.

### Translation Reserve

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

### Hedging Reserve

The hedging reserve comprises the liability in relation to the interest rate swap entered into, to hedge against variable interest

**20. Capital and Reserves** continued

payments on £60.0m (2011: £65.0m) of the total £124.0m (2011: £97.0m) 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:

	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Interim	<b>5.4</b>	5.1
Final (for the preceding period)	<b>10.6</b>	10.1
	<b>16.0</b>	15.2

An interim dividend of 3.8p per share was paid on 5 October 2012 to ordinary shareholders (2011: 3.6p). The Board has proposed a final dividend of 8.0p per share, which will result in total cash payable of approximately £12.0m on 4 July 2013 (2011: 7.4p per share, total final dividend £10.6m). In accordance with IAS10 this had not been recognised as a liability at 27 December 2012.

**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 £4.5m (2011: £1.9m) due 77% (2011: 68%) are within credit terms. A further 4% (2011: 13%) outside credit terms cleared after the period end, and before signing of the financial statements. The bad debt provision as at 2012 is £11,000 (2011: £11,000), with a bad debt expense in the period of £nil (2011: £11,000). Based on past experience the Group believes that no impairment allowance is necessary in respect of the trade receivables that are past due. In 2012 the amount of trade receivables past due but unimpaired is £1.0m (2011: £0.6m). 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.



## 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.

### 27 December 2012

	Carrying amount £m	Contractual cash flows £m	6 months 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	127.3	(136.7)	(4.6)	(4.6)	(8.9)	(118.6)	–
Finance lease liabilities	7.0	(12.0)	(0.4)	(0.4)	(0.8)	(1.9)	(8.5)
Trade and other payables	29.8	(29.8)	(29.8)	–	–	–	–
<b>Derivative financial liabilities</b>							
Interest rate swap 1	1.75	(1.9)	(0.4)	(0.3)	(0.6)	(0.6)	–
Interest rate swap 2	1.75	(1.9)	(0.4)	(0.3)	(0.6)	(0.6)	–
	<b>167.6</b>	<b>(182.3)</b>	<b>(35.6)</b>	<b>(5.6)</b>	<b>(10.9)</b>	<b>(121.7)</b>	<b>(8.5)</b>

During 2011 the Group refinanced its existing debt. The new five year facility consists of a £70m term loan with repayments of £2.5m every six months commencing June 2011 and a revolving facility of £100m. As at the period end, £60m (2011: £65m) of the term loan plus £64m (2011: £32m) of the revolving facility were drawn down. The bank loan is unsecured and subject to two covenants: the ratio of EBITDA to net debt and the ratio of EBITDAR (pre-rent EBITDA) to net finance charges.

### 29 December 2011

	Carrying amount £m	Contractual cash flows £m	6 months 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	95.7	(106.4)	(3.7)	(3.7)	(7.3)	(24.7)	(67.0)
Finance lease liabilities	6.7	(12.2)	(0.3)	(0.3)	(0.6)	(1.9)	(9.1)
Trade and other payables	15.2	(15.2)	(15.2)	–	–	–	–
<b>Derivative financial liabilities</b>							
Interest rate swap 1	0.7	(0.7)	(0.7)	–	–	–	–
Interest rate swap 2	1.9	(2.1)	(0.2)	(0.3)	(0.5)	(1.1)	–
Interest rate swap 3	1.9	(2.1)	(0.2)	(0.3)	(0.5)	(1.1)	–
	<b>122.1</b>	<b>(138.7)</b>	<b>(20.3)</b>	<b>(4.6)</b>	<b>(8.9)</b>	<b>(28.8)</b>	<b>(76.1)</b>

### 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.

### 27 December 2012

	Carrying amount £m	Expected cash flows £m	6 months or less £m	6–12 months £m	1–2 years £m	2–5 years £m	More than 5 years £m
Interest rate swaps:							
Swap 1	(1.75)	(1.75)	(0.1)	(0.55)	(0.55)	(0.55)	–
Swap 2	(1.75)	(1.75)	(0.1)	(0.55)	(0.55)	(0.55)	–
	<b>(3.5)</b>	<b>(3.5)</b>	<b>(0.2)</b>	<b>(1.1)</b>	<b>(1.1)</b>	<b>(1.1)</b>	<b>–</b>

## Notes to the Consolidated Financial Statements

continued

### 21. Financial Instruments continued 29 December 2011

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

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

#### Market Risk

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

#### Foreign Currency Risk

The majority of the Group's operations are in the United Kingdom and hence for these operations there is no exposure to foreign currency risk other than in respect of certain purchases that may be denominated in currencies other than sterling. In addition there is an operation in Ireland where non-sterling revenues, purchases, financial assets and liabilities and cash flows can be affected by movements in Euro rates. However, the exposure is limited as euro operations are not significant. A 10% increase/(decrease) in the value of €1 against sterling would increase/decrease the profit before tax for 2012 by approximately £7,400 (2011: £42,000). A 10% increase/(decrease) in the value of €1 against sterling would increase/decrease equity in 2012 by approximately £34,000 (2011: £5,000).

#### 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 fixed 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 two (2011 period end: three) interest rate swaps which hedged 100% (2011: 100%) of the Group's variable rate unsecured term loan. The revolver loan, which was £64m (2011: £32m) at the end of the period, is not hedged. As a result, there is no impact on the income statement relating to the hedged bank debt as a result of any changes in interest rates.

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

	Carrying amount	
	2012	2011
<b>Fixed rates instruments</b>		
Financial liabilities (interest rate swap)	<b>(3.5)</b>	(4.5)
Financial liabilities (unsecured bank loans – hedged portion)	<b>(60.0)</b>	(65.0)
	<b>(63.5)</b>	(69.5)
<b>Variable rate instruments</b>		
Financial liabilities (unsecured bank loans – unhedged portion)	<b>(64.0)</b>	(32.0)

£60m (2011: £65m) of the variable rate financial liability is hedged via the interest rate swap with the balance attracting a variable interest rate. In both 2011 and 2012, the balance is the revolving facility.

## 21. Financial Instruments continued

### 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.

Two new swaps were taken out during 2011. A change of 100 basis points in interest rates would have increased equity by £1m (2011: £1m) or decreased equity by £1m (2011: £1m) for each swap and would have increased or decreased profit or loss by £nil (2011: £nil). In 2011, for the pre-existing swap, a change of 100 basis points in interest rates would have increased equity by £nil or decreased equity by £nil and would have increased or decreased profit or loss by £0.1m. This swap terminated in April 2012.

### 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 2011.

Effect in GBP thousands	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
<b>27 December 2012</b>				
Variable rate instruments	(1,029)	1,029	(1,029)	1,029
Interest rate swap	621	(621)	621	(621)
Cash flow sensitivity (net)	<b>(408)</b>	<b>408</b>	<b>(408)</b>	<b>408</b>
<b>29 December 2011</b>				
Variable rate instruments	(1,005)	1,005	(1,005)	1,005
Interest rate swap	638	(638)	638	(638)
Cash flow sensitivity (net)	<b>(367)</b>	<b>367</b>	<b>(367)</b>	<b>367</b>

### 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 27 December 2012 £m	Fair value December 2012 £m	Carrying amount 29 December 2011 £m	Fair value 29 December 2011 £m
Unsecured bank loans	127.3	120.8	95.7	89.0
Finance lease liabilities	7.0	7.0	6.7	6.7
Interest rate swaps	3.5	3.5	4.5	4.5
	<b>137.8</b>	<b>131.3</b>	106.9	100.2

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 27 December 2012 and 29 December 2011. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

## Notes to the Consolidated Financial Statements

continued

### 21. Financial Instruments continued

#### 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 £m	Level 2 £m	Level 3 £m	Total £m
<b>27 December 2012</b>				
Derivative financial instruments	–	3.5	–	3.5
<b>29 December 2011</b>				
Derivative financial instruments	–	4.5	–	4.5

There have been no transfers between levels in 2012. No other financial instruments are held at fair value.

#### Capital Management

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

	2012 £m	2011 £m
Cash and cash equivalents	10.9	5.5
Bank loans	127.3	95.7
Equity attributable to equity holders of the parent	220.1	192.3
	<b>347.4</b>	293.5

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

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

### 22. Operating Leases

Non-cancellable operating lease rentals commitments are as follows:

	Land and buildings £m	Other £m	27 December 2012 £m	Land and buildings £m	Other £m	29 December 2011 £m
Less than one year	52.2	0.2	52.4	51.6	0.3	51.9
Between one and five years	210.4	0.7	211.1	207.2	1.2	208.4
More than five years	883.6	–	883.6	789.0	–	789.0
	<b>1,146.2</b>	<b>0.9</b>	<b>1,147.1</b>	1,047.8	1.5	1,049.3

The total future minimum sublease payments expected to be received are £6.5m (2011: £7.0m).

### 23. Capital Commitments

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

	27 December 2012 £m	29 December 2011 £m
Contracted	7.5	2.8

Capital commitments at the end of the financial period relate to new sites (2011: £2.8m).

## 24. Related Parties

The compensation of 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 27 December 2012</b>				
Total compensation for Directors	1,548	–	144	1,692
	Salary and fees including bonus £000	Compensation for loss of office £000	Pension contributions £000	Total £000
<b>52 weeks ended 29 December 2011</b>				
Total compensation for Directors	1,375	342	115	1,832

Share-based compensation benefit charges for Directors was £0.2m in 2012 (2011: £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 27 December 2012 totalled £14.4m (2011: £13.6m) and as at 27 December 2012 £0.2m (2011: £1.3m) was due from DCM in respect of receivables. In addition the Group has a working capital loan outstanding from DCM of £0.5m (2011: £0.5m).



# Company Balance Sheet

at 27 December 2012

	27 December 2012 £000	27 December 2012 £000	29 December 2011 £000	29 December 2011 £000
<b>Fixed assets</b>				
Investments	27	<b>133,394</b>		132,471
<b>Current assets</b>				
Debtors	28	<b>118,082</b>	141,667	
Cash at bank		-	38	
		<b>118,082</b>	141,705	
<b>Creditors: amount falling due within one year</b>	29	<b>(31,404)</b>	(81,842)	
<b>Net current assets</b>		<b>86,678</b>		59,863
<b>Net assets</b>		<b>220,072</b>		192,334
<b>Capital and reserves</b>				
Called up share capital	30	<b>1,496</b>		1,423
Share premium account	30	<b>188,072</b>		171,761
Profit and loss account	30	<b>30,504</b>		19,150
<b>Shareholders' funds – equity</b>		<b>220,072</b>		192,334

These financial statements were approved by the Board of Directors on 7 March 2013 and were signed on its behalf by:

**Stephen Wiener**      **Philip Bowcock**  
Director                      Director

# — Company Reconciliation of — Movements in Shareholders' Funds

for the Period Ended 27 December 2012

	Note	52 week period ended 27 December 2012 £000	52 week period ended 29 December 2011 £000
Profit for the period		26,709	15,778
Dividends paid during the period	30	(15,990)	(15,193)
Movements due to share-based compensation	30	635	158
Equity instruments issued		16,384	381
<hr/>			
<b>Net increase in shareholders' funds</b>		<b>27,738</b>	1,124
Opening shareholders' funds		192,334	191,210
<hr/>			
<b>Closing shareholders' funds</b>		<b>220,072</b>	192,334

# Notes to the Company Financial Statements

## 25. Accounting Policies

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

### Basis of Preparation

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

Information regarding the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Chief Executive and Chief Financial Officers' Report on pages 12 to 22 and the Risks and Uncertainties section on pages 24 and 25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive and Chief Financial Officers' Report on pages 12 to 22. 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.

### Going Concern

As highlighted in Note 16 to the financial statements, the Group meets its day to day working capital requirements through its bank facilities which consist of a five year facility of £170m, which comprises of a £70m term loan and £100m revolving facility. As at the period end, £60m of the term loan plus £64m of the revolving facility were drawn down. The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance in the foreseeable future.

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

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

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

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

### Investments

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

### Impairment

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

### Deferred Taxation

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

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

## 25. Accounting Policies continued

### 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.

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

### Share-Based Payment Transactions

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

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

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

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

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

## 26. Staff Numbers and Costs

The Company pays no employees. The Directors of the Company, including Non-Executive Directors, salaries are recharged to the Company from its subsidiary Cineworld Cinemas Ltd. Total salaries paid to Non-Executive Directors were £358,000 (2011: £379,000). See pages 48 to 50 for details of Directors' emoluments.

## 27. Fixed Asset Investments

Company	Shares in Group undertakings £000
<b>Balance at 29 December 2011</b>	132,471
Additions	923
<hr/>	
<b>Balance at 27 December 2012</b>	133,394
<hr/>	
<b>Net book value</b>	
At 29 December 2011	132,471
<hr/>	
<b>At 27 December 2012</b>	133,394

For details of £923,000 addition to investment see Note 30.

**Notes to the Company Financial Statements**  
continued

**27. Fixed Asset Investment** continued

	Country of incorporation	Principal activity	Class	% of shares held
<b>Subsidiary undertakings</b>				
<i>Directly Held</i>				
Augustus 1 Limited	England and Wales	Holding company	Ordinary	100
<i>Indirectly Held</i>				
Augustus 2 Limited	England and Wales	Holding company	Ordinary	100
Cineworld Holdings Limited	England and Wales	Holding company	Ordinary	100
Cine-UK Limited	England and Wales	Cinema operation	Ordinary	100
Cineworld Cinemas Holdings Limited	England and Wales	Holding company	Ordinary	100
Cineworld Cinemas Limited	England and Wales	Holding company and cinema operation	Ordinary	100
Cineworld Finance Limited	England and Wales	Dormant	Ordinary	100
Cineworld Estates Limited	England and Wales	Cinema property leasing	Ordinary	100
Cineworld South East Cinemas Limited	England and Wales	Holding company	Ordinary	100
Cineworld Exhibition Limited	England and Wales	Dormant	Ordinary	100
Gallery Holdings Limited	England and Wales	Holding company	Ordinary	100
Gallery Cinemas Limited	England and Wales	Dormant	Ordinary	100
Slough Movie Centre Limited	England and Wales	Dormant	Ordinary	100
Adelphi-Carlton Limited	Eire	Cinema operation	Ordinary	100
Cineworld Cinema Properties Limited	England and Wales	Property company	Ordinary	100
Cineworld Elite Pictures Theatre (Nottingham) Limited	England and Wales	Non-trading	Ordinary	99.1
Classic Cinemas Limited	England and Wales	Retail services company	Ordinary	100
Computicket Limited	England and Wales	Dormant	Ordinary	100
Digital Cinema Media Limited	England and Wales	Screen Advertising	Ordinary	50
City Screen Limited	England and Wales	Cinema operations	Ordinary, redeemable ordinary, deferred and preference	100
City Screen (Aberdeen) Limited	England and Wales	Cinema operations	Ordinary	100
City Screen (Bath) Limited	England and Wales	Cinema operations	Ordinary and redeemable preference	100
City Screen (Brighton) Limited	England and Wales	Cinema operations	Ordinary	100
CS (Brixton) Limited	England and Wales	Cinema operations	Ordinary	100
City Screen (Cambridge) Limited	England and Wales	Cinema operations	Ordinary	100
City Screen (Clapham) Limited	England and Wales	Cinema operations	Ordinary	100
City Screen Developments Limited	England and Wales	Cinema operations	Ordinary	100
CS (Exeter) Limited	England and Wales	Cinema operations	Ordinary	100
CS (Greenwich) Limited	England and Wales	Cinema operations	Ordinary	100
City Screen (Liverpool) Limited	England and Wales	Cinema operations	Ordinary	100
CS (Norwich) Limited	England and Wales	Cinema operations	Ordinary	100
Newman Online Limited	England and Wales	Software development and provider	Ordinary	100
City Screen (Oxford) Limited	England and Wales	Cinema operations	Ordinary	100
City Screen (Southampton) Limited	England and Wales	Cinema operations	Ordinary	100
City Screen (SOA) Limited	England and Wales	Cinema operations	Ordinary	100
City Screen (Stratford) Limited	England and Wales	Cinema operations	Ordinary	100
Picturehouse Bookings Limited	England and Wales	Ticket booking operations	Ordinary	100
City Screen (Virtual) Limited	England and Wales	Cinema operations	Ordinary	100
City Screen (York) Limited	England and Wales	Cinema operations	Ordinary	100
Picturehouse Entertainment Limited	England and Wales	Film distribution	Ordinary	100
City Screen (3D) Limited	England and Wales	Cinema operations	Ordinary	100
Picturehouse Cinemas Limited	England and Wales	Cinema operations	Ordinary	100



## 28. Debtors

	<b>27 December 2012 £000</b>	29 December 2010 £000
Amounts due from subsidiary undertakings	<b>118,082</b>	141,667
	<b>118,082</b>	141,667

## 29. Creditors: Amounts Falling Due Within One Year

	<b>27 December 2012 £000</b>	29 December 2011 £000
Amounts due to subsidiary undertakings	<b>31,404</b>	81,842
	<b>31,404</b>	81,842

## 30. Share Capital and Reserves

	Share capital £000	Share premium account £000	Profit and loss account £000	Total £000
At 29 December 2011	1,423	171,761	19,150	192,334
Profit for the period	–	–	26,709	26,709
Dividends paid during the period	–	–	(15,990)	(15,990)
Movements due to share-based compensation	–	–	635	635
Equity instruments issued	73	16,311	–	16,384
<b>At 27 December 2012</b>	<b>1,496</b>	<b>188,072</b>	<b>30,504</b>	<b>220,072</b>

For details of share issue see Note 20.

Share premium is stated net of share issue costs.

Equity instruments granted of £635,000 represents the £923,000 fair value of share options granted to employees of subsidiary undertakings less £288,000 in respect of cash dividends paid to option holders during the year. There is a corresponding increase in investments, see Note 27.

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

## 31. Share-Based Payments

See Note 18 of the Group financial statements.

# Shareholder Information

## Directors

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

## Head Office

Power Road Studios  
114 Power Road  
London W4 5PY

## Telephone Number

020 8987 5000

## Website

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

## Place of Incorporation

England and Wales

## Company Number

Registered Number: 5212407

## Registered Office

Power Road Studios  
114 Power Road  
Chiswick  
London W4 5PY

## Final Dividend – 2012

Announcement	7 March 2013
Ex Dividend	5 June 2013
Record Date	7 June 2013
Payment Date	4 July 2013

## Auditors

KPMG Audit Plc  
15 Canada Square  
London E14 5GL

## Joint Brokers

JP Morgan Cazenove  
20 Moorgate  
London EC2R 6DA

Investec Bank plc  
2 Gresham Street  
London EC2V 7QP

## Legal Advisers to the Company

Olswang LLP  
90 High Holborn  
London WC1V 6XX





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