GARRIDO AUDITORES

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

Audit Report,
Consolidated Financial Statements
and Consolidated Management Report
at December 31, 2013

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group. In the event of a discrepancy, the Spanish-language version prevails.

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AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Company Zinkia Entertainment, S.A.:

1. We have audited the consolidated financial statements of Zinkia Entertainment, S.A. (the parent company) and subsidiaries (the Group) comprising the consolidated statement of financial position at December 31, 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated financial statements for the year then ended. As indicated in Note 2 to the accompanying consolidated financial statements, the directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union and the other provisions of the regulatory financial reporting applicable to the Group. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole, based on our audit work conducted in accordance with the audit regulations in force in Spain, which requires the examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. In our opinion, the accompanying consolidated financial statements for 2013 present fairly, in all material respects, the consolidated equity and consolidated financial position of Zinkia Entertainment, S.A. and subsidiaries at December 31, 2013 and the consolidated results of their operations and consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

3. Without qualifying our audit report, we draw attention to what is indicated in note 2.f of the accompanying notes to the consolidated financial statements, where is indicated that on February 26th 2014, the parent company decided to seek a declaration of voluntary arrangement process with creditors. This fact, along with the rest of factors indicated in the same note is indicative of a significant uncertainty about the ability to continue its operations.

4. Without affecting our audit opinion, we draw attention to what is indicated in note 10 of the accompanying notes to the consolidated financial statements, where is indicated that the parent company has Long-Term Account Receivable amounting to 4.069.891 euro. This amount includes 3.897.977 euro corresponding to a minimum guaranteed under a license agreement with Carears Diapers, LLC. This agreement was signed on June 24th 2012, being settled the deadline for the first collection in June, 23rd 2013. However, because of the delay in the commercialization of the products, on 18 November 2013 both parts agreed to amend the original Agreement. The first deadline was changed to June, 23rd 2015. Thus, the recovery of the Long-Term Account Receivable will depend on the successful commercialization of the products.

5. The accompanying consolidated directors' report for 2013 contains the explanations that the parent company's directors consider appropriate regarding the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information contained in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2013. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope and did not include a review of any information other than that drawn from the accounting records of Zinkia Entertainment, S.A. and subsidiaries.

Garrido Auditores, S.L.
(Registered at R.O.A.C. under no S1838)

David Jiménez Matías
April 1, 2014

ZINKIA ENTERTAINMENT, S.A. and SUBSIDIARIES

AUDIT REPORT, CONSOLIDATED ANNUAL FINANCIAL STATEMENTS AND CORPORATE GOVERNMENT REPORT CORRESPONDING TO YEAR END 31st DECEMBER 2013

TABLE OF CONTENTS OF THE CONSOLIDATED ACCOUNTS OF THE ZINKIA ENTERTAINMENT GROUP

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31st DECEMBER 2013 (In EUR)

Euro

ASSETS	Note	12/31/2013	12/31/2012
Intangible assets	7	9,389,636	9,729,969
Goodwill	7.1	878,364	897,307
Other intangible assets	7.2	8,511,271	8,832,662
Property, plant and equipment	8	83,210	118,425
Non-current financial liabilities	9	128,005	28,183
Deferred tax assets	16	5,319,202	4,425,759
Non-current trade and other receivables	10	4,069,891	3,979,292
NON-CURRENT ASSETS		18,989,944	18,281,628
Trade and other receivables	10	5,290,496	8,013,519
Corporate income tax assets		4,343	2,774
Other tax receivables	16	51,788	110,314
Current financial assets	9, 18	1,489,327	595,703
Cash and cash equivalents	11	1,158,146	2,913,279
Other current assets	16	83,028	64,369
CURRENT ASSETS	16	8,077,128	11,699,958
TOTAL ASSETS		27,067,072	29,981,586

EQUITY AND LIABILITIES	Note	12/31/2013	12/31/2012
Issued capital attributable to equity holders of the parent	12	2,445,677	2,445,677
Share premium	12	9,570,913	9,570,913
Reserves	12	510,517	799,911
Treasury shares	12	(403,841)	(403,841)
Translation differences	12	43,072	57,786
Retained earnings	12	(2,042,822)	(3,131,607)
Profit attributable to the equity holders of the parent		(1,002,467)	1,019,289
TOTAL EQUITY OF THE PARENT		9,121,049	10,358,128
Profit attributable to minority interest		16,891	69,495
Minority interest	12	321,262	294,866
EQUITY		9,459,202	10,722,488
Deferred income	13	154,515	130,978
Non-current financial liabilities	14	6,900,181	6,827,306
Deferred tax liabilities	16	63,994	73,588
NON-CURRENT LIABILITIES		7,118,690	7,031,871
Other liabilities and expenses accruals	21	100,000	
Current financial liabilities	14	4,378,173	4,572,298
Current trade and other payable	17	5,126,084	5,739,579
Corporate income tax payable	16	113,009	193,625
Other tax payable	16	462,452	473,469
Current accruals and deferred income		309,462	1,248,256
CURRENT LIABILITIES		10,489,180	12,227,226
TOTAL EQUITY AND LIABILITIES		27,067,072	29,981,586

Notes 1-27 are an integral part of the consolidated statement of financial position at December 31st 2013

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT AT 31st DECEMBER 2013 (In EUR)

Euro	Note	12/31/2013	12/31/2012
Revenue from operations	19	11,823,363	14,254,063
Other operating income	19	1,225,430	1,349,658
Total Revenue		**13,048,793**	**15,603,721**
Cost of goods sold	19	(162,279)	(276,791)
Cost of employees	19	(2,763,145)	(3,751,281)
Other operating expenses	19	(8,307,292)	(7,058,018)
Amortizations and depreciations	19	(1,248,660)	(1,617,344)
Total expenses		**(12,481,376)**	**(12,703,434)**
Operating income		**567,417**	**2,900,288**
Net financial expense	19	(1,878,697)	(1,244,966)
Impairment and gain/losses on sales of assets	7, 8	(435,843)	(110,827)
Profit before tax		**(1,747,123)**	**1,544,494**
Corporate income tax	16	761,547	(455,710)
Profit for the period		**(985,576)**	**1,088,784**
Profit attributable to minority interest		16,891	69,495
Profit attributable to the equity holders of the parent		**(1,002,467)**	**1,019,289**
Basic and diluted earnings per share	24	(0.0415)	0.0424

Notes 1-27 are an integral part of the consolidated income statement corresponding to 2013.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AT 31st DECEMBER 2013 (In EUR)

Euro	12/31/2013		12/31/2012	
	Equity holders of the parent	Minority interest	Equity holders of the parent	Minority interest
Profit (loss) for the period	(1,002,467)	16,891	1,019,289	69,495
Income and expenses recognized directly in equity	(14,659)	-	61,036	-
Reclassification included in the income statement		-		-
Income tax impact	-	-	-	-
TOTAL COMPREHENSIVE INCOME RECOGNIZED	**(1,017,126)**	**16,891**	**1,080,325**	**69,495**

Notes 1-27 are an integral part of the consolidated statement of comprehensive income corresponding to 2013

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 31st DECEMBER 2013 (In EUR)

Euro

	NOTES	ISSUED CAPITAL	SHARE PREMIUM	RESERVES-PARENT	RESERVES-SUBSIDIARIES	TRANSLATION DIFFERENCES	TREASURY SHARES	RETAINED EARNINGS	PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	UNREALISED ASSETS AND LIABILITIES REVALUATION RESERVE	TOTAL EQUITY OF THE PARENT	MINORITY INTEREST	TOTAL
FINANCIAL POSITION AT DECEMBER, 12.31.2012		2,446,677	9,570,913	994,353	(190,440)	57,786	(403,841)	(3,131,000)	1,019,289	(4,003)	10,358,128	364,361	10,722,488
Adjustments due to mistakes 2012											-		-
ADJUSTED POSITION AT JANUARY, 01.01.2013		2,446,677	9,570,913	994,353	(190,440)	57,786	(403,841)	(3,131,000)	1,019,289	(4,003)	10,358,128	364,361	10,722,488
total comprehensive income recognized						(14,714)			(1,002,487)	55	1,017,128	16,891	(1,000,235)
Transactions with shareholders		-	-	(185,793)	-			-	-	-	(185,793)		(185,793)
Capital increases													-
Trading in treasury shares	12			(185,793)							(185,793)		(185,793)
Other movements in equity				109,863	(213,518)			1,088,785	(1,019,289)		(34,161)	(43,089)	(77,250)
FINANCIAL POSITION AT DECEMBER 12.31.2013		2,446,677	9,570,913	918,423	(403,958)	43,072	(403,841)	(2,042,622)	(1,002,487)	(3,947)	9,121,040	338,153	9,459,202

Euro

	NOTES	ISSUED CAPITAL	SHARE PREMIUM	RESERVES-PARENT	RESERVES-SUBSIDIARIES	TRANSLATION DIFFERENCES	TREASURY SHARES	RETAINED EARNINGS	PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	UNREALISED ASSETS AND LIABILITIES REVALUATION RESERVE	TOTAL EQUITY OF THE PARENT	MINORITY INTEREST	TOTAL
FINANCIAL POSITION AT DECEMBER, 12.31.2011		2,446,677	9,570,913	1,161,523	(19,144)	(1,255)	(950,560)	(3,357,604)	(84,476)	(5,999)	8,748,074	229,595	8,978,670
Adjustments due to mistakes 2011									138,923		138,923	63,818	202 741
ADJUSTED POSITION AT JANUARY, 01.01.2012		2,446,677	9,570,913	1,161,523	(19,144)	(1,255)	(950,560)	(3,357,604)	54,447	(5,999)	8,887,997	293,413	9,181,411
total comprehensive income recognized						69,040			1,019,289	1,996	1,080,326	69,495	1,149,820
Transactions with shareholders		-	-	(157,170)	-	-	546,719	-	-	-	389,549		389,549
Capital increases													-
Trading in treasury shares	12			(157,170)			546,719				389,549		389,549
Other movements in equity					(171,296)			225,998	(54,447)		256	1,453	60,749
FINANCIAL POSITION AT DECEMBER 12.31.2012		2,446,677	9,570,913	994,353	(190,440)	67,786	(403,841)	(3,131,606)	1,019,289	(4,003)	10,358,128	364,361	10,722,488

Notes 1-27 are an integral part of the consolidated statement of changes in equity corresponding to 2013

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ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT AT 31st DECEMBER 2013 (In EUR)

	12/31/2013	12/31/2012
A) CASH FLOWS FROM FROM OPERATING ACTIVITIES		
1. Profit before tax	**(1,747,123)**	**1,544,494**
2. Non cash adjustments for	**3,649,848**	**2,960,584**
a) Depreciation and amortisation charge	1,251,650	1,617,344
b) Non-current assets provisions	437,643	152,601
c) Results in non-current assets operations		(2,145)
d) Financial income	(31,917)	(37,536)
e) Financial costs	1,450,291	974,467
f) Exchange differences	455,533	155,435
g) Recognition of grants	(16,342)	(12,554)
h) Other income and costs	2,990	112,972
i) Other accruals	100,000	
3. Changes in working capital	**468,062**	**(3,684,613)**
a) Trade and other receivables	2,781,867	(4,822,837)
b) Other current assets	(18,977)	(33,018)
c) Trade and other payables	(625,048)	3,123,169
d) Other current liabilities	(938,792)	1,248,256
e) Other non-current assets and liabilities	(730,988)	(3,200,183)
4.- Other cash flows from operating activities	**(1,198,468)**	**(889,554)**
a) Interest paid	(751,277)	(544,954)
b) Dividends received		
c) Collections (payments) for corporate income tax	(344,631)	(237,129)
d) Other payments (collections)	(102,990)	(112,972)
e) Interest collect	430	5,501
5.- Net cash flows from operating activities (1+2+3+4)	**1,172,319**	**(69,090)**
B) CASH FLOW FROM INVESTING ACTIVITIES		
6- Investments payments (-)	**(2,216,103)**	**1,733,244**
a) Investments in associates		
b) Investments in companies,net of cash and equivalents acquired		
c) Investments in intangible assets	(1,219,484)	(1,410,589)
d) Investments in property, plant and equipment	(9,370)	(38,385)
e) Investments in other financial assets	(987,249)	(284,270)
7. Investments proceeds (+)	**23,427**	**371,683**
a) Proceeds on financial investments in associates		27,107
b) Proceeds on other financial invesments	23,427	344,576
8. Net cash flows from investing activities (7-6)	**(2,192,676)**	**(1,361,561)**
C) CASH FLOWS FROM FINANCING ACTIVITIES		
9. Equity	**(185,792)**	**389,549**
a) Treasury shares acquisition	(404,187)	(39,369)
b) Proceeds from disposals of treasury shares	218,395	428,918
10. Finance liabilities	**(474,633)**	**3,542,581**
a) Issue	1,268,182	5,100,712
1. Proceeds from issue of debentures and bonds		
2. Proceeds from loans and borrowings		1,422,065
3. Proceeds from other liabilities	1,268,182	3,678,647
b) Repayments	(1,742,815)	1,558,131
1. Repayments of loans and borrowings	(565,213)	997,317
2. Repayments of other liabilities	(1,177,602)	560,813
11. Dividends payments		
a) Dividends	-	-
12. Net cash flows from financing activities (9+10+11)	**(660,425)**	**3,932,130**
D) EFFECT ON EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(74,351)	(77,791)
E) NET INCREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)	**(1,755,133)**	**2,423,689**
Cash and cash equivalents at January, 1st	2,913,279	489,590
Cash and cash equivalents at December, 31st	1,158,146	2,913,279

Notes 1-27 are an integral part of the consolidated cash flow statement corresponding to 2013.

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31st DECEMBER 2013 (In EUR)

1. General information and group business activity

The parent Company was founded as a limited liability company under the name of Junk & Beliavsky, S.L. on 27 April 2000. On December, 27th 2001, the name was changed to Zinkia Sitement, S.L. and the company's registered offices were established at Calle Infantas, 27 in Madrid.

On June, 11th 2002, the name of the parent Company was once again changed to ZINKIA ENTERTAINMENT, S.L.

On July, 20th 2007, the General Meeting of Shareholders agreed to transform the company into a public limited company, which was formalised in the public deed executed before the notary public of Madrid, Miguel Mestanza Iturmendi, on October, 24th 2007.

The corporate purposes of the parent Company, which are governed by the terms of the Capital Companies Act, are as follows:

a) Business activities related to the production, promotion, development, management, exhibition and commercialisation of cinematographic, audiovisual and musical works as well as the activities related to publishing of musical works.

b) Rendering services related to the development of interactive software, hardware and consulting in the field of telecommunications.

c) Buying and selling shares and debentures which may or may not trade on domestic or foreign stock markets and other negotiable securities and real estate. By law, the Company's business activities exclude those reserved for stockbrokers, collective investment institutions and property leasing.

d) Managing and administering all kinds of companies including industrial, commercial and service companies and holding interests in existing or newly-created companies, either by participating in their governing bodies or by holding shares or financial interests in them. These activities may also be performed on behalf of third parties.

e) Providing the companies in which it holds interests with advisory, technical assistance and similar services in relation to their administration, financial structure or their productive or commercial processes.

The parent Company's activities are focused primarily on those described in items a) and b).

Zinkia is the parent company of the Group of companies listed in these Consolidated Financial Statements. The subsidiaries' business activities include distributing, producing and marketing audiovisual and interactive products and musical recordings, all at international level. Jomaca 98, S.L. holds a 64.71% Stake in Zinkia Entertainment, S.A.

The information on the companies in the consolidated Group at the date of preparation of these Consolidate Financial Statements is as follows:

				12/31/2013				12/31/2012			
				% Interest held		Voting rights		% Interest held		Voting rights	
Name and address	Legal status	Activity	Auditor	Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %
Sonocrew, S.L. Infantas 27, Madrid	Limited liability company	Music publisher	No	100%	-	100%	-	100%	-	100%	-
Producciones y Licencias Plaza de España, S.A. de C.V. Av Presidente Massaryk 61, piso 2, México D.F.	Variable capital firm	Explotation and management of audiovisual rights	No	100%	-	100%	-	100%	-	100%	-
Cake Entertainment, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	Yes	51%	-	51%	-	51%	-	51%	-
Cake Distribution, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	Yes	-	51%	-	51%	-	51%	-	51%
Cake Productions, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	No	-	51%	-	51%	-	51%	-	51%
HLT Productions Bv Van der Helstlaan 48. 1213 CE Hilversum. The Netherlands	Private limited company	Explotation and management of audiovisual rights	No	-	51%	-	51%	-	51%	-	51%

All subsidiaries have been consolidated using the full consolidation method.

In 2013 the information on the companies in the consolidated group was not modified.

In 2012 a third subsidiary has been started up named Cake Productions Ltd. This company is 100% Cake Entertainment Ltd. subsidiary

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

These Consolidated Annual Financial Statements of the Zinkia Entertainment Group for 2013 were formulated:

- By the Directors of the parent company, Zinkia Entertainment, S.A., at Board of Directors' meeting held on 31st March 2014.
- Pursuant to the terms of International Accounting Standard nº 34 and the International Financial Reporting Standards (IFRS), as approved by the European Union, in accordance with (EC) Law 1606/2002 of the European Council and Parliament.
- So as to show a true image of the equity and financial position of the consolidated Group at 31st December 2013, and the results of its operations, changes in equity and cash flows, consolidated, operated in the Group in the period then ended.
- Based on the accounting records of the parent company and the Group's subsidiaries.
- The Consolidated Financial Statements were prepared on a historical cost basis, with the exception of the derivative financial instruments and available-for-sale financial assets, which are shown at fair value.

b) Accounting rules and policies applied

The Group's Consolidated Financial Statements at 31st December 2013 were prepared in accordance with the International Financial Reporting Standards and the International Accounting Standards in force at 31st December 2013.

At 31st December 2013 the following International Standards have not been applied by the Group, because they had not yet been adopted by the European Union and/or because they are to be applied in future statements:

IFRS 9: Financial Instruments. It will be effective 1.1.2015
IFRS 10: Consolidated Financial Statements. It will be effective 1.1.2014
IFRS 11: Joint Agreements. It will be effective 1.1.2014
IFRS12: Information about interests in other entities. It will be effective 1.1.2014
IFRS 14: Deferred regulated states. it will be effective 1.12016
IAS 19 Modification: Defined benefit plans: employer contributions. It will be effective 1.1.2015
IAS 27 (2011): Separated Financial Statements. It will be effective 1.1.2014
IAS 28: Investments in Associates and Joint Ventures. It will be effective 1.1.2014
IAS 32: Offsetting Financial Assets and Financial Liabilies. It will be effective 1.1.2014
IAS 36: Explanation of the recoverable value of nonfinancial assets. It will be effective 1.1.2014
IAS 39: Novation continuity of derivatives and hedge accounting. It will be effective 1.1.2014

The Group will apply these International Standards when they will be effective. The Group considers that there will be not a significant effect on the financial statements.

In order to reconcile the value of net equity and consolidated income statement with national and international regulations as of the date of the first application of IFRS, it should be noted that, pursuant to IAS 20, deferred income from government capital grants is not carried directly to equity but rather to non-current liabilities. These grants are carried to the income statement as the assets subsidised by the grants are amortised.

c) Responsibility for the information and estimates

The information contained in these Consolidated Financial Statements is the responsibility of the directors of the parent company.

The senior managements of the Group and consolidated companies have used certain estimates and hypotheses to prepare these Consolidated Financial Statements based on the best information available at the time on the events analysed. Events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated income statements. These estimates and hypotheses basically refer to:

- Impairment of assets:

  At the closing date of each period, the Group evaluates whether there are indications of asset impairment, reviewing the carrying values of non-current assets. If there is objective evidence of impairment loss, the value of the loss is the difference between the carrying value of the asset and the recoverable value, calculated as the current value of the future estimated cash flows discounted at an appropriate discount rate to obtain the current value of those cash flows.

* Useful lives of PPE and intangible assets:

  The Directors of the Group determine the estimated useful lives of PPE and intangible assets. These estimates are based on expected life cycles and may be modified due to technological innovation or strategic changes within the Group. If the estimated useful life changed, the funding of the depreciation allowance would be adjusted accordingly.

* Tax credits:

  The Group has certain tax credits and reviews the estimates of taxable bases for the coming years at the closing date of each period in order to evaluate the probability of recovering the capitalised tax credits, and, in case of reasonable doubts regarding the ability to recover the tax credits, in order to provide for the pertinent corrections.

* Corporate tax expense:

  According to IAS 12, corporate tax expense is recognised in each accounting period based on the best estimate of the average weighted tax rate for the accounting year in question. It may be necessary to make adjustments to the amounts calculated in the future.

d) Consolidation principles

The subsidiaries controlled by the Zinkia Entertainment Group are fully consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Subsidiaries are companies where the Group controls the financial and operational policies, generally accompanied by a shareholding involving more than half of the voting rights.

Associates are entities over which the Group exercises significant influence but not control, which is generally accompanied by a shareholding of 20 to 50% of voting rights.

The operations of Zinkia Entertainment and consolidated subsidiaries were consolidated in accordance with the following basic principles:

* On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values. Any excess of the cost of acquisition of the subsidiary, including acquisition costs, over the fair value of the aforementioned assets and liabilities relating to the Parent's ownership interest in the subsidiary is recognised as goodwill.

  Any negative difference is credited to the consolidated income statement.

  The results of the subsidiaries acquired or disposed of during the fiscal year are included in the Consolidated Income Statement from the effective date of the acquisition or until the effective date of the sale.

* The enclosed Consolidated Annual Financial Statements include certain adjustments in order to standardise the accounting principles and procedures applied by the subsidiaries and the parent company.

- The value of the interest of minority shareholders in the equity and results of the fully consolidated subsidiaries is presented under "Equity - Minority Interests" in the accompanying consolidated statement of financial position and "Minority Interests" in the consolidated income statement.

- All balances and transactions between fully or proportionately consolidated companies were eliminated on consolidation.

e) *Functional currency*

The items included in the individual accounts of each of the Group companies are measured using the currency of the principal economic environment in which the company operates («functional currency»). All Group companies use the functional currencies of the countries where they are located.

The Annual Consolidated Financial Statements are presented in euro, which is the parent Company's functional and presentation currency.

The Annual Financial Statements of foreign companies were converted to euros using the year-end exchange rate method. This method consists of converting all assets, rights and obligations to euro at the exchange rate in effect on the closing date of the Consolidated Accounts, while the items of the Interim Consolidated Income Statement are converted at the monthly average exchange rate. All resulting exchange differences are recognised as a separate component of equity.

f) Reasons for uncertainly - Negative Working Capital

The consolidated statement of financial position shows a negative Working Capital of EUR 2,412,052 at 31st December 2013 (EUR 527,268 at 31st December 2012), caused mainly by the maturity of the short term debt held by a private entity against the parent company.

Meanwhile the Consolidated Income Statement shows a negative result in 2013 of 985,576 euros (a 1,088,784 euros benefit at 31st December 2012). Additional information is summarised as follows:

f.1) Company situation and negotiation process

As noted in the Annual Accounts of the previous year, the Company, despite its business growth, contemplated difficulties in order to meet part of its payment obligations expected in 2013. Therefore, during this year, and among the different alternatives considered by the Company, a bond issue was initially conceived as a viable means to obtain additional funding, and thus, on April 18th 2013, Zinkia began before the CNMV the process of enrolment in the official records of the relevant Registration Document of the Company, following Article 92 of the Law 24/1988 on the Securities Market. The Registration Document was approved nearly three months after its submission, on July 4th 2013, date of its official registration by Decision of the CNMV.

Following to the approval of the Registration Document, Zinkia prepared the corresponding Admission Paper in order to launch a Bond Issue aimed at institutional investors, which supposedly was unlimited as to the amount of bonds to be issued, and for which Law did not set a standard minimum face value for each Bond but a minimum subscription of €100,000 per investor.

For this purpose Zinkia together with its advisers designed and prepared the transaction (with the corresponding Securities Note concerning the Admission of Zinkia's Simple Debentures) considering an issue of Bonds among investors with a minimum subscription of €100,000 per investor and therefore not considering the public offer of Bonds for the purposes provided in art. 38 of Royal Decree 1310/2005, of November 4th, partially developing Law 24/ 1988 of 28th July, on the Securities Market, on the admission of securities to trade in official secondary markets, public offers for sale or subscription and the paper required for that purpose, and with a unit nominal value of € 1,000 per bond. This operation was not authorized by the CNMV under the conditions proposed by Zinkia, for the Commission finally required the unit value of each Bond to be set at the amount of € 25,000 which, in the opinion of the Directors of the Company, resulted in no titles being placed.

After these events, Zinkia considered to aim the bond issue at the retail public with the issue limitations established by law, and so proceeded to present on September 6th 2013, in accordance with Article 24 and following of the Real Decree 1310/2005, of 4th November, partially developing Law 24/1988 of 28th July, on the Securities Market, on the admission of securities to trade in official secondary markets, public offers for sale or subscription and the paper required for that purpose, a first draft of the Securities Note that was finally approved by the CNMV on October 7th 2013.

Given this lengthy process, and the changing of approaches, the Company does not consider the securities placed are enough and decides to renounce to the Issue.

Given the manifest impossibility to meet the next milestones in the pay back of the financial debt, such as was the amortization to maturity of the debenture bond issue "Simple Debentures Zinkia 1st issue", and the final redemption or repayment of the loan made by a private Foundation, both reaching up to about 5,000,000 € and which were maturing in November 2013 and February 2014, respectively.

Given this situation, and in order to protect both the assets and interests of Zinkia, as well as to enable the Company to continue with business as usual under the umbrella of legal protection, Zinkia requested, on October 31st 2013, the legal procedure under art. 5 bis of the Insolvency Act in order to renegotiate and continue negotiations with the different creditors of the Company.

From the date of the application for the procedure, the Company had a three month period (that is, until January 31st 2014) to achieve a refinancing agreement with its main creditors in order to (once process 5 Bis is ended) continue with its business and activity. Throughout this process, there have been endless numbers of procedures, negotiations and agreements summarized as follows:

- Renegotiation of debt with the bondholders, at the General Meeting of Bondholders of the "Zinkia's Simple Debentures 1st Issue" of 2010, which took place on December 9th 2013 on second call, where they agreed, among other things, on the modification of the Final Terms of the issue (such as the market was informed by communication of the corresponding Relevant Facts in both the official pages of MAB and CNMV, as well as on the official website of the Company (www . zinkia.com), and more specifically:

Modification of the Final Terms for the "Zinkia's Simple Debentures 1st Issue" in the following terms:

- Change in the writing-off date to maturity, originally scheduled for the third anniversary from the Date of issue, subscription and payment, that is to say November 12th 2013, and setting it on the fifth anniversary from the Date of issue, subscription and payment, that is to November 12th 2015.
- Inclusion of the possibility of early writing-off by the Issuer in the first year, that is, on November 12th 2014, who will therefore proceed to pay the corresponding coupon until that date.
- Modification of the fixed rate annually payable in the coupons to be paid in 2014 and 2015. The fixed rate changed from 9.75% to 11%.
- Since the above modifications were approved, we proceeded to pay the full coupon corresponding to the 2013 interests (9.75%), which was paid to the holders of the debentures that were issued in December 2013"

- The company INTEGRA CAPITAL PARTNERS, SA ("Integra") was hired in order to implement a Viability Plan including all the revenue estimates derived from the activity in the coming years, as well as all the payment obligations intended by the Company and, what is more important, that could actually be proposed by the Company, in order to have an impartial third party ensure that, if the forecasts of the Company in their most conservative scenario, and after the due sensitivity analysis, were fulfilled (and indeed, all scenarios were well behind the projections of real business of the Company, which are de facto much more optimistic), the Company could face the commitments reached under the so called 5Bis refunding procedure.

The Viability Plan is performed by means of a mathematical, computer program used to calculate, from some given premises and preset scenarios, the Income Statement, Balance Sheet and Statement of Treasury corresponding to the projected months and years and, according to those results, to estimate the conditions and payment schedules that can be offered to different creditors. All in order to confirm that the Company may afford all the payments and obligations offered to each creditor and therefore confirming that the company is viable in financial and economic terms, and that the Company has sufficient level of solvency based on the actual business assets, as well as sufficient structure as to afford the realistic and effective completion of its payment obligations to creditors within the proposed timeframe.

As a result of the Viability Plan, the Company approved the offer of certain payment terms that were negotiated with the main creditor groups.

- Zinkia held some interviews with its main trade creditors, as well as with all the financial institutions involved, in order to evaluate their bargain power and their will to reach the refinancing agreements that could lead to the end of procedure 5 Bis and the signing of the relevant refinancing agreements. Finally, after talks and interviews held by Zinkia individually with each of the financial institutions, Integra was charged also with the coordination of the negotiation and signing of the refinancing agreements with all entities, so as to reach the agreement of the whole banking "pool" under the same conditions.

Although the Company was successful in reaching a refinancing deal with the bondholders, with most of the commercial creditors, and although negotiations had been also successful with the different committees of banks which had already approved the refinancing operations, on the February 26th 2014 the Board of Directors of Zinkia decided to seek a declaration of voluntary arrangement with creditors due to the refusal of renegotiation by private lending institution regarding an amount of EUR 2,500,000 (Note 16).

f.2) Overdue balances at the year end and actions taken.

The due, unpaid balances with financial institutions at December 31st 2013 amounts approximately to 818,054 euros. As it has been mentioned in the previous item, in October and given the lack of liquidity, in order to protect the assets of the company, while looking for favourable conditions of bargain, on 31st October the Company requested before the Courts of Madrid protection under the so-called 5Bis procedure of the Insolvency Act then in force. As the result of this procedure, negotiations with all financial institutions were held, and an viable agreement for the parent Company was reached, but was not actually signed because the parent Company had requested previously the Voluntary Arrangement with Creditors as the result of the refusal by a private entity to sign a refinance agreement. As stated above, the parent Company had to submit to the Voluntary Arrangement with Creditors and therefore the negotiation process with the main creditors, whatever their nature, are null and void. Since then, the parent Company has been working on a Viability Plan that will afford to set some payment deadlines in order to meet all of the Company's debt. At the time when these Annual Financial Statements are being prepared, the parent Company is working internally on a proposal of agreement containing the conditions to be offered to each creditor group.

f.3) Actions to generate liquidity

As it has already made known to the market several times, the Company has been working for almost two years in finding appropriate sources of funding, and has analysed all possible alternatives to generate additional liquidity, so that the necessary financial resources are generated in order to meet all the commitments of the Company and so that the investment projects of the Business Plan can be launched.

In order to solve the deficit revealed in the financial resources, other alternatives for generating additional liquidity are being analysed, while negotiations with potential investors are still being held. The Company, in spite of the situation, is still growing and working on the development of its business, and keeps obtaining income in different ways:

- Increased revenue due to the international expansion of the brand, thus diversifying the cash generation coming from different countries.

  Zinkia has signed two new Commercial Licensing Agent agreements and Merchandising Celebrity Endorsement for the United States and Canada with the reference company in that sector, IMG Worldwide, Inc. ("IMG"). In addition, the Company has also signed a new Merchandising Licensing Commercial Agent agreement with Square Licensing Ltd. ("Square Licensing") for the United Kingdom and Ireland.

- Improving the exploitation of digital licenses, online content and associated advertising in order to increase the recurring cash inflow from this activity. This type of licensing has a much shorter collection period than traditional licenses.

- On November 20th 2013, the parent Company was communicated the definitive resolution of the aid granted within the subprogram of Strategic Action for Economy and Digital Society promoted by the Ministry of Industry, Energy and Tourism, amounting to EUR 541, 970, and consisting of a subsidy of 65,036 euros and a loan of 476,934 euros. This aid is intended for a project already engaged by the parent Company, and which the Company aims to develop with its own staff mostly, so that the costs thereof remain subsumed as part of its current costs, and so that all this activity would be financed by this operation.

- At present the Group is still in the process of seeking funds to develop its business plan, considering many alternatives (banks, investment funds, etc.).

These activities are fully detailed in the management report presented by the Group together with these Annual Consolidated Financial Statements. Therefore, the Group continues to grow and has decided to prepare these Annual Consolidated Financial Statements by applying the principle of functioning company and considering that all these are transitory circumstances on their way to be solved.

The Directors of the Group consider that, if the different creditors were to adhere the Proposal of Arrangement that the parent Company is preparing, this, together with the rest of the other activities that are being carried out, will lead the Group to obtain the financial resources and the necessary agreements to fulfil all of its obligations.

3. Accounting principles, policies and measurement criteria applied

The following accounting principles, policies and measurement criteria were used to formulate these Annual Consolidated Financial Statements of the Zinkia Entertainment Group at year-end 31st December 2013, pursuant to the terms of the International Financial Reporting Standards adopted by the European Union and in force on 31st December 2013:

3.1 Intangible assets

These are identifiable non-monetary assets arising as a consequence of the company's legal business or developed by consolidated companies. Only the assets whose cost can be reliably estimated and for which the Group deems it is likely to obtain future profits or economic returns are recognised on the books.

Intangible assets are initially stated at their cost and/or cost of production and are later stated at cost less, accordingly, accumulated depreciation and/or any losses due to the impairment they have experienced.

a) Research and development expenses

Research expenditure is recognised as an expense when incurred. Development costs incurred in projects are recognised as intangible assets when it is probable that the project will be a success considering its technological and commercial feasibility, there are sufficient technical and financial resources to complete it, the costs incurred may be measured reliably and a profit is likely to be generated.

If an asset's carrying amount is greater than its estimated recoverable amount, its carrying amount is written down immediately to its recoverable amount. (Note 3.5)

If the circumstances favouring the project that permitted the capitalisation of the development costs change, the unamortised portion is expensed in the year of change.

b) Licenses, trademarks and intellectual property

Licences and trademarks have defined useful lives and are carried at cost less accumulated amortisation and recognised value adjustments for impairment according to note 3.5. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 3-5 years.

c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of five years.

Expenses associated with software maintenance are recognised when incurred. Costs directly related to the production of identifiable and unique computer programs controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Direct costs include costs relating to employees developing the software and an appropriate percentage of general expenses.

Software development costs recognised as assets are amortised over the software's estimated useful life, which does not exceed 5 years.

3.2 Goodwill

The difference between the cost of the stakes in consolidated companies and the carrying value of those companies at the time of acquisition or on the date of the first consolidation, provided that the acquisition does not occur later than the assumption of control over the company, is recorded as follows:

- If attributable to specific equity items of the acquired companies, by increasing the value of the assets whose fair market values are higher than the net carrying values shown on the statement of financial position, which are treated similarly to the rest of the Group's assets from an accounting perspective.

- If attributable to non-contingent liabilities, by recognising those on the consolidated statement of financial position if it is likely that the outflow of resources to settle the obligation will incorporate economic benefits and the fair value can be reliably measured.

- If attributable to specific intangible assets, by explicitly recognising them on the consolidated statement of financial position as long as the fair value on the acquisition date can be reliably determined.

- Any remaining differences are recognised as goodwill.

Goodwill arising from the acquisition of companies with functional currencies other than the euro is converted to euro at the exchange rate in effect on the date of the Consolidated Statement of financial position.

Goodwill is not depreciated. However, at the end of each year the Group assessed whether there has been any impairment that reduces the recoverable value and, if so, makes the pertinent adjustments.

3.3 Property, plant and equipment

These are the tangible assets used by the Group for production or to provide goods and services or for administrative purposes and which are expected to be used longer than one fiscal year.

Property, plant and equipment are stated at acquisition price or production cost less accumulated depreciation and accumulated impairment losses.

Own work capitalised is measured by adding the direct or indirect costs of the asset to the price of the consumable materials.

The cost of enlarging, modernising or enhancing property, plant and equipment is carried as an increase in the asset's value only when it entails an increase in its capacity, productivity or the extension of its useful life. Maintenance and repair costs that do not lengthen the useful life of the assets are charged to the consolidated income statement for the year in which they are incurred.

Property, plant and equipment acquired under financial leases are carried in the corresponding asset category and are depreciated over their useful lives using the same method as for other assets owned by the Group.

Depreciation of property, plant and equipment, with the exception of land, which is not depreciated, is calculated systematically using the straight-line method over the assets' estimated useful lives based on the actual decline in value brought about by operation, use and possession. Estimated useful lives are as follows:

Property, plant and equipment	Term (years)
Machinery and tooling	4 to 8
Other equipment	8
Furnishings	10
Data-processing equipment	4 to 5
Other PPE	10

The residual values and useful lives of assets are reviewed and adjusted, if necessary, at each consolidated statement of financial position date.

If an asset's carrying amount is greater than its estimated recoverable amount, its carrying amount is written down immediately to its recoverable amount (Note 3.5).

Gains and losses on the disposal of property, plant and equipment are calculated by comparing the sales revenue with the carrying amount and are recognised in the consolidated income statement.

3.4 Interest costs

Financial expenses directly attributable to the acquisition or construction of fixed assets that require more than one year before they are ready for use are included in the cost of the assets until they are ready for use.

3.5 Losses due to impairment of non-financial assets

Each year on the closing date or as necessary, Zinkia Entertainment Group reviews the carrying value of non-current assets to determine whether there are indications of a loss of value due to impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset itself does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, at each statement of financial position date, the Group analyses possible impairment of intangible assets which have not yet come into operation or which have an indefinite useful life is analysed, such as goodwill.

The recoverable amount is the higher of fair value less cost to sell and value in use, which is taken to be the present value of the estimated future cash flows. In assessing value in use, the assumptions used in making the estimates include discount rates, growth rates and expected changes in selling prices and costs. The directors estimate discount rates which reflect the time value of money and the risks specific to the cash-generating unit. The growth rates and the changes in selling prices and costs are based on in-house and industry forecasts and experience and future expectations, respectively.

If it is estimated that the recoverable amount of an asset or a cash-generating unit is less than the carrying value, the value of the asset or the cash-generating unit is reduced to the recoverable amount, recognising the differences as an impairment loss in the consolidated income statement.

Impairment losses recognised for an asset in prior years are reversed when there is a change in the estimates concerning the recoverable amount of the asset. The reversal may not exceed what would have been the carrying value of the asset had the impairment and reversal not been necessary. The reversal of the impairment loss is immediately recognised as income on the income statement. Impairment losses on goodwill are non-reversible.

3.6 Leases

a) When the Company in the Group is lessee– Finance lease

Leases of property, plant and equipment where the Group substantially all the risks and rewards of ownership are classed as finance leases. Finance leases are capitalised at inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Present value is calculated using the interest rate implicit in the lease agreement and, if this rate cannot be determined, the interest rate applied by the Group company on similar transactions.

Each lease payment is distributed between the liability and financial charges. The total financial charge is apportioned over the lease term and taken to the consolidated income statement in the period of accrual using the effective interest rate method. Contingent instalments are expensed in the year they are incurred. Lease obligations, net of financial charges, are recognised in "Finance lease liabilities". Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

b) When the Company in the Group is the lessee – Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement in the period of accrual on a straight-line basis over the term of the lease.

3.7 Financial instruments

Financial assets

The Group classifies its current and non-current financial assets in the following categories:

-Loans and accounts receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included in current assets, except for maturities longer than 12 months after the statement of financial position date which are classified as non-current assets. Loans and receivables are included in "Loans to companies" and "Trade and other receivables" in the consolidated statement of financial position. Financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortised cost. Accrued interest is recognised at the effective interest rate, which is the discount rate that brings the instrument's carrying amount into line with all estimated cash flows to maturity.

However, trade receivables falling due in less than one year are carried at their face value at both initially and subsequently, provided that the effect of not updating the cash flows is not significant. At least once a year at year end, the necessary value adjustments are made to account for impairment when there is objective evidence that all receivables will not be collected. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate prevailing at the date of initial recognition. Value adjustments and reversals, where applicable, are recognised in the consolidated income statement.

-Financial assets held for trading: Financial assets held for trading are assets acquired with the intention of selling in the short term or those who are part of a portfolio for which there is evidence of a recent actual target. This category also includes financial derivatives which are not agreements of financial guarantees or have been designated as hedging instruments.

-Other financial assets at fair value with changes in profit and loss: Included in this category are financial assets considered by the company at the time of initial recognition, due to such designation write off or significantly reduces accounting mismatches, or such assets form a Group whose performance is evaluated by the Company's management, based on fair value and in accordance with established and documented strategy.

-Held-to-maturity investments: Held-to-maturity financial assets are debt securities with fixed or determinable payments and fixed maturities that are traded on an active market and that Group management has the intention and ability to hold to maturity. If a Group company sells an immaterial amount of held-to-maturity financial assets, the entire category would be reclassified as available for sale. These financial assets are included in non-current assets, except for those maturing in less than 12 months of the consolidated statement of financial position date which are classified as current assets. The measurement criteria applied to these investments are the same as for loans and receivables.

-Available-for-sale financial assets: Any others not included in the other financial asset categories, most of which are capital investments. These investments are also shown on the consolidated statement of financial position at market value which, for unlisted companies, is obtained using alternative methods such as comparisons with similar transactions or by updated expected cash flows, if there is sufficient information to do so. The profits and losses from changes in fair value are recognised directly in equity until the asst is disposed of or becomes impaired, at which the accumulated profits or losses previously recognised in equity are included in the net profits (losses) for the period. If the fair value cannot be reliably determined, they are recognised at cost or a lower amount if there is evidence of impairment. They are classed as non-current unless the maturity date is within 12 months of the statement of financial position date or Group management intends to dispose of the investment within that amount of time.

Cash and cash equivalents

"Cash and cash equivalents" in the Consolidated Statement of Financial Position includes cash, demand deposits and other highly liquid short-term investments that can be realised in cash quickly and are not subject to a risk of changes in value.

Financial liabilities

Financial liabilities are initially recognised for the amount actually received, net of transaction costs, and are later recognised at amortised cost using the effective interest rate method. The effective interest rate is the discount rate that brings the instrument's carrying amount into line with the expected future flow of payments to the maturity date of the liability. Finance costs are recognised on an accrual basis in the consolidated income statement using the effective interest method and they are aggregated to the carrying amount of the financial instrument to the extent that they are not settled in the year in which they arise.

On the enclosed Consolidated Statement of Financial Position, the payables are classified by maturity, i.e., those maturing within twelve months are classified as current and those maturing in more than twelve months are classified as non-current.

No-interest or subsidised interest loans are recognised at face value, which is not believe to different significantly from fair value.

Suppliers and other short-term payables do not accrue interest and are stated at fair value.

Financial derivatives and accounting hedges

Financial derivatives are measured at fair value at both initial recognition and subsequent measurement. Resulting gains and losses are recognised depending on whether the derivative is designated as a hedging instrument or not and, if so, the nature of the item being hedged. The Group designates certain derivatives as:

- Fair value hedges: Changes in the fair value of derivatives that are designated and qualify as fair value hedges are reflected in the consolidated income statement together with any changes in the fair value of the asset or liability hedged that are attributable to the hedged risk.

- Cash flow hedges: The part of the change in the fair value of the derivatives designated as cash flow hedges is tentatively recognised in equity. It is taken to the consolidated income statement in the years in which the forecast hedged transaction affects results unless the hedge relates to a forecast transaction ending in the recognition of a non-financial asset or liability, in which case the amounts reflected in equity are included in the cost of the asset when it is acquired or of the liability when it is assumed. The gain or loss relating to the inefficient part is recognised immediately in the consolidated income statement.

Hedging instruments are measured and accounted for by nature insofar as they are not or are no longer effective hedges.

For derivatives not qualifying for hedge accounting, any gains or losses in fair value are recognised immediately in the consolidated income statement.

3.8 Inventories

The heading of the Consolidated Statement of Financial Position covers the non-financial assets held for sale by the consolidated entities in the course of their ordinary business, in the process of being produced for sale or to be consumed in the production or service provision process.

Inventories are measured at the lower of cost or net realisable value. The net realizable value represents the estimated sale price less all estimated termination costs and the marketing, sales and distribution costs that will be incurred.

The Group adheres to a policy of setting up provisions to cover the risk of obsolescence, deducting these from inventories for the purposes of the Consolidated Statement of Financial Position.

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3.9 Equity instruments

Capital instruments and other equity instruments issued by the Group are shown at the amount received in equity, net of direct issuing costs

3.10 Treasury stock

Treasury stock is recognised at cost, less net equity and the proceeds from the sale of shares are recognised against equity.

3.11 Provisions and contingent liabilities

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, an outflow of funds will probably be necessary to settle the obligation, and the amount may be reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are carried at the present value of forecast payments that are expected to be required to settle the obligation, using a rate before taxes that reflects the current market assessment of the value of money and the specific risks of the obligation. Adjustments to the provision deriving from restatements are recognised as financial expenses as they accrue.

Provisions maturing in one year or less with no significant financial effect are not discounted.

When it is expected that a portion of the payment necessary to settle the provision will be reimbursed by a third party, the reimbursement is recognised as an independent asset, provided that receiving the reimbursement is practically certain.

Contingent liabilities are considered to be potential liabilities deriving from past events, the existence of which is subject to the occurrence of one or more future events that lie outside the control of the Group. Such contingent liabilities are not reflected for accounting purposes and a breakdown is presented in the notes to the interim consolidated financial statements.

3.12 Severance pay

Under current legislation, the Group is obliged to pay severance to employees who terminated their employment relationship under certain conditions.

Therefore, severance pay can be reasonably quantified are recognised in the year in adopting the decision to terminate the employment relationship that creates the right to receive such compensation. Benefits which are not going to be paid within twelve months of the balance sheet date are discounted at present value.

With regards to certain employees of the Parent Company, their labour contracts are complemented with private agreements containing special exit clauses.

In this regard, the compensation of such employees could amount to 24 months' salary, additional and regardless of the legal compensation due per year worked, if any of the assumptions contained in those documents should occur. These allowances are to be recorded in the financial year wherein such circumstances are expected to take place or do actually take place.

The Group has no other type of obligations to employees besides the aforementioned.

3.13 Deferred income

The grants received by the Group are covered under this heading.

Repayable grants are recognised as liabilities until the conditions are fulfilled for the grants to be treated as non-repayable. Non-repayable grants are recognised as deferred income and are taken to income statement on a systematic and rational basis in line with grant costs.

A grant is deemed to be non-repayable when it is awarded under a specific agreement, all stipulated conditions for obtaining the grant have been met and there are no reasonable doubts that the funds will be received.

Monetary grants are carried at the fair value of the amount granted and non-monetary grants are carried at the fair value of the asset received, at the recognition date in both cases.

Non-repayable grants used to acquire intangible assets, property, plant and equipment, and investment property are recognised as income for the period in proportion to the amortisation or depreciation charged on the relevant assets or, if applicable, upon their sale, value adjustment or write-off. Non-repayable grants related to specific costs are recognised in the income statement in the period in which the relevant costs accrue, and non-repayable grants awarded to offset an operating deficit are recognised in the year they are awarded, unless they are used to offset an operating deficit in future years, in which case they are recognised in those years.

3.14 Revenue recognition

Revenue comprises the fair value of the consideration receivable and represents amounts receivable for goods delivered and services rendered in the ordinary course of the Group's activities, net of returns, rebates, discounts and value added tax.

In the licensing and merchandising there are two kinds of incomes which are accounted as follows:

-Guaranteed minimum incomes: The minimum guaranteed are fixed amounts agreed with the client who paying on the dates specified in the agreement. The amounts agreed are not refundable by the Group, but the client is allowed to deduct these amounts from future sales. With these guaranteed minimum amounts the Group ensures the business and the license as signing the agreement with client the Group will receive the agreed amounts without fulfilling any obligation.

From an accounting perspective the accrual of the amounts agreed with the client by guaranteed minimum arrives when agreement is signed so these incomes are recorded at the agreement date. The balancing entry of the said income will be an asset in which is shown the guaranteed minimum which the accrual has occurred. This account will be decreasing when the company goes invoicing in the agreed dates.

Royalties: The Group gives a license to the client by a fixed amount as explained above and a percentage of product sales. Monthly or quarterly client will report the amount of the sales and the Group will invoice based on this information.

In accounting terms the Group recognises royalties' revenues when they actually arise, whenever it is possible.

Both in the case recognition of guarantee minimums as in royalties, the Group recognises incomes according to the accrual principle either by agreement date, in the first case, or by the income generation period, in the second case.

- Incomes provided by Cake: Incomes provided by Cake Entertainment to the consolidated figures come from the granting of licenses to broadcast TV children content in accordance with the parent company's business. The supplies mostly consist in the costs incurred for work performed by other companies related to the provision of children's series in different territories. The higher costs are the dubbing costs.

The companies in the Group recognise revenues when the amount can be reliably measured, future economic profits are likely to flow to the entity and the specific conditions for each of the Group's activities are met. A reliable calculation of the amount of revenue is not deemed possible until all sale-related contingencies have been resolved. The Group companies' estimates are based on historical results, taking into account the type of customer, the type of transaction and the specific terms of each agreement.

3.15 Foreign currency transactions

Transactions in foreign currencies are recorded in the Group's functional currency (euro) calculated using the interest rate on the transaction date. The differences that occur during the fiscal year between the recorded exchange rate and the rate in force on the payment or receipt date are recorded on the income statement.

The accounts receivable or payable of the consolidated companies which are denominated in a currency other than the functional currency of the interim financial statements are converted to the euro at the exchange rate on the closing date. Any differences on exchange are recorded as financial gains (losses) on the consolidated income statement.

3.16 Income tax

The income tax expense or income for the year is calculated by adding the current and deferred income tax. The current tax expense is determined by applying the current tax rate to the fiscal earnings, less any tax credits and deductions, which gives the amount payable to the tax authorities.

Deferred tax assets and liabilities arise from temporary differences, which are defined as the amounts that will presumably be paid or received in the future as a result of differences between the carrying value of assets and liabilities and the taxable base. These amounts are recorded at the tax rate at which they are expected to be paid or received.

Deferred tax assets also arise as a consequence of tax loss carry forwards and tax deducted generated but not yet applied.

Deferred tax assets associated with deductible temporary differences are only recognised if it is deemed probable that there will be sufficient future fiscal earning against which to make them effective and they do not arise from the initial recognition (except a business combination) of other assets and liabilities in operations that do not affect the tax results or the accounting results. All other deferred tax assets (tax loss carry forwards and deductions pending compensation) are only recognised if it is considered likely that the consolidated company will have sufficient tax earnings in the future to actually liquidate them.

At the end of the fiscal year, the deferred taxes are reviewed (both tax assets and liabilities) to see whether they are still valid and correcting them accordingly based on the results of those analyses and the tax rate in force.

3.17 Environmental Information

Expenses deriving from business actions taken to protect and improve the environment are recorded as expenses in the year incurred.

When they involve the addition of tangible fixed assets whose purpose is to minimise the environmental impact or to protect or enhance the environment, they are carried as an increase in the value of the asset.

3.18 Earnings per share

The basic earnings per share are calculated as the quotient between the net profit for the period attributable to the parent company and the weighted average number of ordinary shares in circulation during the period, without including the averaging number of shares of the parent company in the portfolios of Group companies.

The diluted earnings per share are calculated as the quotient between the net profit for the period attributable to the ordinary shareholders and the weighted average number of ordinary shares in circulation during the period, adjusted by the weighted average number of ordinary shares that will be issued if all potential ordinary shares are converted into ordinary shares of the parent company.

4. Segment information

According to IFRS 8, the only identified segment of the Group's business activities consists of the intellectual property licenses held by the company's consolidated in these Annual Consolidated Financial Statements.

5. Seasonality

The Group's net turnover and profit are not significantly influenced by the seasonality of its operations.

Historically, Zinkia Entertainment, S.A., the Group's parent company, earns approximately 60% of its turnover in the second half of the year.

6. Financial risk management

6.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on uncertainty in financial markets and seeks to minimise the potential adverse impact on its financial profitability. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is controlled by the parent company's Treasury Department, which identifies, evaluates and hedges financial risks in accordance with the policies approved by the Board of Directors. The Board provides guidelines for overall risk management and written policies covering specific areas such as foreign exchange risk, interest rate risk, liquidity risk, use of derivatives and non-derivatives and investing excess liquidity.

α) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk from currency exposures, particularly in relation to the US dollar and the pound sterling. Foreign currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

At December 31st 2013, approximately 76% of the Group's turnover is generated in countries whose local currency is not euro, 63% represents U.S. dollar and the remaining 13% represents other currencies. At December 31st 2012 the percentage of revenue from countries whose local currency is not euro raised to 87%, out of which 75% represented U.S.dollar. The Group has a bank account in U.S. Dollars used to receive receipts and order payments in that currency. The Group currently has no hedge mechanism against fluctuations in currency exchange rates. Therefore, Zinkia is exposed to fluctuations in exchange rates derived from the development of its activities in various countries outside the euro environment in which it operates, as well as from the potential changes that may occur in the various currencies in which the Group maintains its commercial debt. If the Company's turnover in other currencies grows, the Group's exposure to exchange rate fluctuations shall increase.

Since the Group's operating currency is euro, the operating income and the Group's own comparison of its financial results between periods could be adversely affected as the result of the conversion of those currencies into euros at the exchange rate existing at the closing balance of both items, income and expenses. By contrast, where the Group provides services outside Spain (offshore) to customers and, therefore, the revenue is received in euros, an appreciation of the currency of that country could lead to an increase in the costs due to fluctuations in the exchange rates.

The exchange rate between the currency of the various countries where the Group operates and the euro has been subject to substantial fluctuations in recent years and, in the future, it could continue oscillating. At December 31st 2013, the impact of the exchange rates on the net financial income was a loss of 455,533 euros representing approximately 24% of the net financial income of the Company. At December 31st 2012 the impact of the exchange rate on the net financial income was a loss of 155,435 euros, which represented approximately 12% of the financial income.

(ii) *Price risk*

The Group is not exposed to equity instrument price risk because of the investments held and classified on the balance sheet either as available for sale or carried at fair value through profit or loss. The Group is not exposed to commodity price risk.

(iii) *Interest rate, cash flow and fair value risk*

Since the Group does not hold significant interest-bearing assets, the income and cash flows generated by operating activities are relatively protected from fluctuations in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to the cash flow interest rate risk. Fixed interest rate borrowings expose the Group to fair value interest rate risks.

At December 31st 2013, in particular, 82% of the total debt of the Group was referenced to fixed interest rates, that percentage amounted to 84% at the previous year-end, representing a higher financial cost that would be applied if the debt was indexed to variable interest rates (i.e. Euribor) because of their currently lower levels. As a result of this unfavourable situation, the cost of credit has increased and its availability is limited, which has caused many companies to experience difficulties or inability to make investments financed with credit and bank loans. Furthermore, these funding difficulties are further aggravated by the current crisis in the banking and financial sector in Spain, country where the parent company is headquartered. At December 31st 2013 the Group's debt average rate is 6.66%. At the year-end of 2012 the debt average rate was 6.39%.

The Group analyses its interest rate exposure in a dynamic manner. A simulation is performed of various scenarios, taking into account the refinancing, renewal of current positions, alternative financing and hedging. On the basis of these scenarios, the Group calculates the effect on results of a certain variation in the interest rate. For each simulation, the same variation in interest rates is used for all currencies. Scenarios are only simulated for liabilities representing the most significant interest-bearing positions.

a) Credit risk

Credit risk is managed by groups. The credit risk results from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions also wholesalers and retailers, including accounts receivable outstanding and committed transactions. The Group only works with reputable banks and financial institutions.

In order to carry out its business, the Group requires raising the necessary financial resources to ensure its projects implementation and its business growth. The Group has financed its investments primarily through credits and loans from financial institutions, capital and debt securities issues.

At December 31st 2013, the net financial debt (total financial debt less "Cash and equivalents") of the Group amounted to 10,120,208 euros. At December 31st 2012 this amount raised to 8,486,325 euros.

However, the global economic crisis and the current adverse market situation have resulted, in recent years, in a very restricted and more burdensome access to credit for any operator (higher financing costs and higher interest expenses).

For the Group in particular, this situation has worsened even further due to the difficulties in the production of the cash flows required to pay its debts in the short term. The negative working capital of the Group interferes with obtaining the financing for the business development and reduces the chances of refinancing.

If the restriction on credit markets continues or worsens, the financing costs of the Group could be so high that access to this type of financing could be restricted almost entirely. This could cause a material adverse impact on the activities, in the result of the operations or in the financial position of the Group.

b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, keeping funds available through sufficient committed credit facilities and having the ability to close out market positions.

Given the current climate of credit restriction above mentioned, lack of liquidity is a looming problem for the Group that hampers the development of new projects that should ensure future cash flows.

Such as indicated in Note 2f), the Company is currently facing a major liquidity problem due to which Zinkia's Board of Directors decided to seek a declaration of voluntary arrangement with creditors, and the actions underway described in Note 2f).

6.2 Fair value estimation

The fair value is defined as the amount by an asset is available or a liability can be settled between interested parties duly informed which make a transaction with independence position without any deduction for transaction costs in the possible transfer.

The fair value of financial instruments traded on active markets (such as publicly traded instruments and available for sale securities) is based on market prices at the statement of financial position date. The listed price used for financial assets is the ordinary buyer's price.

The fair value of financial instruments not listed on active markets is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. For long-term debt market prices or agent quotation prices are used. Other techniques, such as estimated discounted cash flows, are used to determine fair value for other financial instruments. The fair value of interest rate swaps is calculated as the present value of estimated future flows. The fair value of exchange rate forward contracts is determined using future rates listed on the market at the date of the Consolidated Statement of Financial Position.

It is assumed that the carrying value of trade receivables and payables approximate their fair value. The fair value of financial liabilities for the reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate that the Group has for similar financial instruments.

7. Intangible Assets

7.1 Goodwill

On June 1st, 2011 a 51% stake in the company Cake Entertainment, Ltd. was acquired by the parent company. The amount agreed between both companies was EUR 989,158. This amount is considered the fair value of the asset as it has been agreed by the parties with independence position and it is based on market research about asset value and estimates of future cash flows.

At the acquisition date, the items in the asset and liability of the Cake Group balance sheet are mostly payable and receivable related to Group business with no assets and liabilities to apply the surcharge paid by the 51% stake in the company Cake if it is compared the amount paid with company's equity. No adjustments have been made to the book value and there are not items which apply surcharge. It is considered that the amount paid and therefore goodwill is due to intangibles (management expertise, portfolio, etc.) also estimates of future cash flows.

The amount of the minority interests recognized at the acquisition date is EUR 143,562. This item has been estimated according to the global integration method. So this item is 49% Cake Group value that is not part of the Zinkia Group and it belongs to third parties.

Accounting for the business combination was not provisional at December 2011.

Cake Entertainment, Ltd is the head of a Group of three companies in 2011 added a fourth in 2012 (Note 1). Its business is focused on the international distribution of series for children and family audience.

On June 1st, 2011 takeover was performed.

The percentage is 51% stake in net equity with voting rights.

Through 51% stake in Cake Group, the parent company seeks to increase its international expansion as well as get synergies in the field of children's animation for distribution, brands management and content production. The parent company acquired Cake Group control with 51% subscribed stock and voting rights.

At the acquisition date, the fair value of the assets is shown in the Cake Group balance sheet as the fair value of assets and liabilities other than cash on which is taken control.

The Goodwill changes, in the first semester of 2012 compared to 2012 takeover are as follows:

zinkia

Euro	12/31/2013
Net value at 12.31. 2011	897,307
Impairment of goodwill from Cake	-
Goodwill	897,307
Net changes effect of exchange rates	(18,943)
Total	**878,364**

Euro	12/31/2012
Net value at 12.31. 2011	866,929
Impairment of goodwill from Cake	(27,192)
Goodwill	839,737
Net changes effect of exchange rates	57,570
Total	**897,307**

Exchange differences: The Group functional currency is euro. The dependent subgroup of the parent company makes transactions in pound sterling. The addition of the financial position of Cake subgroup to the parent company the balances have been translated to the exchange rate at the year-end 2013. As provided rule, goodwill of consolidation is considered as an element of the acquired company and it must be translated at the exchange rate at the end of the year. The difference recorded amounts to EUR 18,943.

In 2012, there is an impairment of the goodwill from the dependent Group amounting to EUR 27,192 due to the difference between book value and net equity of an investee company.

Otherwise, goodwill impairment has not been recorded because the analysis is based on the remarkable evolution expected by the Group tin the coming years. The parameters used in this analysis are described as follows:

Zinkia Group considers each company as a cash generating unit ("CGU"). Although Zinkia has identified different assets as industrial property and development projects, due to its small size, and for the time being, Zinkia considers the total of the company as a CGU Therefore development costs are allocated in Zinkia as a CGU, and the goodwill is allocated in Cake as a CGU too. The asset impairment test is made for individualized asset based on estimates of the asset recoverable fair value of each asset, and not for the whole of the CGU.

The basis on which the Zinkia cash generating unit recoverable fair value is calculated for development expenses is the use value.

The basis on which the Cake cash generating unit recoverable fair value is calculated for goodwill is the fair value less the selling cost, considering third party valuations of this company.

In relation to Zinkia cash generating unit the hypothesis to estimate cash flows are as follows:

- **Production and exploitation of audiovisual and interactive content:** Zinkia mainly produces and distributes series, movies, video games and applications, which subsequently are licensed to television, etc., normally in return for a payment. Work in this direction is expected to go on.

- **Exploitation of brands:** audiovisual content is registered as trademark with the aim of signing license agreements with third parties for the production and development of derivative or merchandising products in exchange for a payment based on royalties. In 2013 Zinkia has signed an Agency contract with IMG Worldwide, Inc., agent of reference in the U.S. and Canada,and therefore a significant increase in the cash flows is expected to arise from the signing of new agreements resulting from the exploitation of this source of income in these large territories.
- **Advertising business:** Upon broadcast and dissemination of its audiovisual content across different platforms, Zinkia proceeds to directly selling the advertising space available both in ZInkia's digital platforms as well as in third parties' platforms distributing Zinkia's content. This revenue source is currently providing cash flow almost instantly, so Zinkia is working in enhancing this business line.

The past experience in the exploitation of other territories has been used in order to allocate value to each key hypothesis.

Projection period is five years.

The discount rate applied is the weighted average interest rate which Zinkia get external long-term financing without real guarantees as it shows the market valuation of the risks associates with the assets operated by Zinkia. This discount rate is 6.51% at 31st December 2013.

There are not projections more than five years so it has not been necessary to use growth rate.

In relation to Cake cash generating unit the methodology used was the valuation of the audiovisual rights portfolio managed by itself. For this valuation no account is taken comparable market prices since each production is different. The hypothesis used is that the management commission received by cake applied to the amount of signed agreements is an appropriate estimation of the fair value. It has been used the past experience in order to allocate value to this key hypothesis.

As stated in Note 2 f.1), given the above described situation, the parent Company decided to seek the declaration of arrangement with creditors, and the Group's Directors estimate that, if the different creditors adhere to the Proposal of Arrangement prepared by the parent Company together with other activities that are being carried out, this will lead to obtaining the financial resources and the necessary agreements in order to fulfil all the commitments of the Group.

That said, the parent Company intends to solve the cash difficulties and expects to continue working in the business expansion and growth as projected, so that no reasonable change is expected in these key hypothesis that might lead to a lower assets value in the cash generating unit compared to assets book value. The difference between assets book value and assets fair value ranges from 140% to 500%.

7.2 Other intangible assets

The details and changes in the items under the Intangible Assets caption other than goodwill were as follows during 2013 and 2012:

Euro	Balance at 12/31/12	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Balance at 12/31/13
Cost						
Research and development	6,351,594	-	1,209,088	-	(1,785,661)	5,775,022
Intellectual property	11,877,019	-	-	-	1,785,661	13,662,680
Computer software	516,370	-	10,396	-	37,773	564,539
Intangible assets advances	37,773	-	-	-	(37,773)	-
Total	18,782,756	-	1,219,484	-	-	20,002,241
Accumulated Amortisation						
Research and development	(246,985)	-	(35,917)	-	-	(282,902)
Intellectual property	(9,237,576)	-	(1,069,115)	-	-	(10,306,691)
Computer software	(465,533)	-		-	-	(465,533)
Total	(9,950,094)	-	(1,105,032)	-	-	(11,055,126)
Impairment						
Total	-	-	(435,843)	-	-	(435,843)
Total	8,832,662	-	(321,391)	-	-	8,511,271

Euro	Balance at 12/31/11	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Balance at 12/31/12
Cost						
Research and development	5,015,960	-	1,335,634	-	-	6,351,594
Intellectual property	11,825,852	-	51,167	-	-	11,877,019
Computer software	514,274	-	2,096	-	-	516,370
Intangible assets advances	16,082	-	21,692	-	-	37,773
Total	17,372,167	-	1,410,589	-	-	18,782,756
Accumulated Amortisation						
Research and development	(246,985)	-	-	-	-	(246,985)
Intellectual property	(7,708,323)	-	(1,529,253)	-	-	(9,237,576)
Computer software	(433,899)	-	(31,634)	-	-	(465,533)
Total	(8,389,207)	-	(1,560,887)	-	-	(9,950,094)
Impairment	-	-	-		-	-
Total	8,982,959	-	(150,298)	-	-	8,832,662

The additions in 2013 and 2012, refer primarily to work in new developments (Note 3.1.a).

The amount in the item *research and development* refer to parent company internal developments.

As parent company's functional currency is Euro, and all the monies come from that company, there is not exchange difference for the conversion of the financial statements to the submission currency.

The main assets of the Group, particularly the Shuriken School project and Pocoyo, have recognized a residual value about 10% and their depreciation is calculated systematically using the straight-line method over these assets' estimated useful lives 5 and 8.5 years respectively. At present Shuriken School is fully amortised.

In the Shuriken School project, recognition of residual value is based on historical estimated revenues of the Group. Although this project is fully amortised the series could be sold to international television companies for amounts over 10% of the residual value so this percentage is considered an prudent estimate figure.

In the Pocoyo project, recognition of residual value and useful life is based both on the project revenues, which today has surpassed already five years long, and on the offers made to the Group, which make the asset exceed its book value.

Significant intangible assets

The amounts in this item include costs of new audiovisual projects elaborated until the time these projects are completed and therefore transferred to the item "intellectual property". They are detailed below:

WIRELESS WEST DEVELOPMENT	245,785
SHURIKEN GAME DEVELOPMENT	304,638
MOLA NOGURU DEVELOPMENT	1,617,384
FISHTAIL DEVELOPMENT	487,309
POCOYO EYE CIRCUITS DEVELOPMENT	1,092,843
POCOYO IV DEVELOPMENT	1,175,322
POCOYO PLAYSET DEVELOPMENT	69,758
OTHER DEVELOPMENT	781,982

For these developments the Group has considered the possibility of an impairment of the book value over fair value. In order to evaluate such possibility, the Group relied both on internal and external information sources. In relation to the external information sources, the Group has calculated the assets fair value applying a discount rate on their estimations as the weighted average rate of the different debts of the Group; this rate, as we have stated above, is 6.51% at year-end 2013. As there is not comparable market price because each production is different, the Group has taken on a value for their forecasts based on past experience and discussion with television companies. Therefore there are internal reports which support that the economic performance of these assets will meet the projected expectations.

During 2013 the Group has impaired some projects since it cannot determine whether they will be able to generate future cash flows and thus be economically successful.

Fully-amortised intangible assets

At 31st December 2013, the Group had intangible assets fully-amortised valued at EUR 4,011,367 still in use. These intangible assets correspond to software and audiovisual projects.

At 31st December 2012, the Group had intangible assets fully-amortised valued at 3,771,366 still in use. Those intangible assets corresponded to software and audiovisual projects.

Assets subject to guarantees and ownership restrictions

At 31st December 2013 and 2012 no elements of intangible assets were subject to ownership restrictions or had been pledged to secure liabilities.

Grants received in relation to intangible assets

The Group has received during 2013 capital grants to develop the Pocoyo Moving project, amounting to 35,750 euros, and to develop the Croupier Zinkia project, amounting to 48,777 euros.These grants are subject to compliance with certain requirements imposed to the Group by the the corresponding Ministry granting each aid.

Also the parent Company has received notification of the full recognition as subsidy from the Ministry of Education, Culture and Sport, of a grant amounting to 60,000 euros that had been granted in 2012 to develop the project Zinkia family & Kids. Thus this grant is now considered non-refundable.

8. Property, plant and equipment

Set out below is an analysis of the details and movements in property, plant and equipment on the Consolidated Statement of financial position:

Euro	Balance at 12/31/12	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Balance at 12/31/13
Cost						
Machinery	31,689	-		-	-	31,689
Other equipment	38,198	-		-	-	38,198
Furnishings	186,403			-	-	186,403
Data-processing equipment	186,834	-	2,610	-	-	189,444
Other PPE	28,443	-	6,760	-	-	35,203
Total	471,567	-	9,370	-	-	480,937
Accumulated Amortisation						
Machinery	(31,405)	-	(125)	-	-	(31,530)
Other equipment	(29,923)	-	(2,214)	-	-	(32,137)
Furnishings	(125,626)		(4,812)	-	-	(130,439)
Data-processing equipment	(153,103)	-	(14,162)	-	-	(167,266)
Other PPE	(13,085)	-	(23,271)	-	-	(36,356)
Total	(353,142)	-	(44,585)	-	-	(397,727)
Impairment	-	-	-	-	-	-
Total	118,425	-	(35,215)	-	-	83,210

Euro	Balance at 12/31/11	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Balance at 12/31/12
Cost						
Machinery	31,689	-	-	-	-	31,689
Other equipment	38,198	-	-	-	-	38,198
Furnishings	183,688		2,715	-	-	186,403
Data-processing equipment	151,164	-	35,670	-	-	186,834
Other PPE	28,443	-	-	-	-	28,443
Total	433,182	-	38,385	-	-	471,567
Accumulated Amortisation						
Machinery	(31,285)	-	(120)	-	-	(31,405)
Other equipment	(25,921)	-	(4,003)	-	-	(29,923)
Furnishings	(119,950)		(5,676)	-	-	(125,626)
Data-processing equipment	(109,283)	-	(43,820)	-	-	(153,103)
Other PPE	(10,247)	-	(2,838)	-	-	(13,085)
Total	(296,685)	-	(56,457)	-	-	(353,142)
Impairment	-	-	-	-	-	-
Total	136,497	-	(18,072)	-	-	118,425

Impairment losses

The Group Consolidated Financial Statements for 2013 do not include any fixed asset impairment losses. The same was true for the previous period (Note 3.5).

Fully-depreciated assets

At 31st December 2013 the Group had fully depreciated assets valued at EUR 220,631 still in use.

At 31st December 2012, the Group had fully depreciated assets valued at EUR 209,365 still in use.

Property, plant and equipment subject to guarantees

At 31st December 2013 and 2012 no property, plant and equipment were subject to ownership restrictions or had been pledged to secure liabilities.

Commitments to purchase fixed assets

At 31st December 2013 and 2012 the Group had assumed no commitments to acquire tangible fixed assets.

Assets under operating leases

The Consolidated Income Statement includes operating leases on the rental offices for the Group and computer rentals, all of which total EUR 363,305 (EUR 439,955 in 2012).

At 31st December 2013 and 2012, the Group has not non-cancellable operating leases.

Grants received in relation to property, plant and equipment

In 2013 and 2012 the Group has not received any capital grants.

9. Financial assets

The carrying value of each one of the financial asset categories on the Consolidated Statement of financial position is as follows:

Euro	12/31/2013	12/31/2012
Non-current financial investments		
Equity instruments	26,383	28,183
Other financial assets	101,622	-
Total	**128,005**	**28,183**
Current financial investments		
Loans to Group's companies	476,666	445,244
Other financial assets	1,012,497	150,278
Equity instruments	164	181
Total	**1,489,327**	**595,703**

At 31 December 2013 the non-current financial investments include the minority equity shares held by the parent company as well as the long-term deposits made.

The current financial assets include loans to JOMACA 98, SL, company holding a 64.71% stake in the parent company Zinkia Entertainment, SA. This transaction is explained in further detail in Note 18 regarding third parties balances and transactions.

Equity instruments includes the value of a small holding in a publicly listed company, whereas the short term deposits and bonds set up by Group companies are listed under Other Financial Assets.

At 31st December 2013, the Group has a deposit of restricted availability related to the bonds issue of the parent company. The amount is EUR 219,134.

Current liabilities include a guarantee, by another financial institution, amounting to 748,198 euros, the funds for its pledging have been deposited by the parent company in that bank. This Guarantee has been required by the Ministry of Industry, Energy and Tourism in order to obtain the aid for the call on "Strategic Action Plan for Telecommunications and Information Society", 2012 annuity, within the sub-program "Competitiveness R & D". (Plan Avanza).

Likewise, the parent Company has deposited 101,619 euros in cash in the General Deposit as guarantee for the Ministry of Industry, Energy and Tourism, who also required such guarantee in order to obtain the aid for the call "Strategic Action Plan for Telecommunications and Information Society" 2013 annuity, within the sub-program" Strategic Action Plan for Digital Economy and Society."

The heading *Equity Instruments* is considered a financial asset at fair value. The fair value of equity securities is based on current prices In an active market buyer.

The maximum exposure to credit risk at the time of presenting the information is the fair value of assets.

10. Trade and other receivable accounts

The detail of this caption on the Consolidated Statement of financial position at 31st December 2013 and 31st December 2012 is as follows:

Euro	12/31/2013	12/31/2012
Trade receivables	5,410,094	8,197,467
Trade receivables, long term	4,069,891	3,979,292
Accounts receivables	-	-
Bad debt provision	(119,916)	(183,948)
Total	**9,360,068**	**11,992,811**

The carrying amounts of loans and other receivables are denominated in the following currencies:

	31/12/2013	31/12/2012
Euro	1.601.736	2.905.774
Us dólar	5.924.427	8.080.210
Pound sterling	1.623.266	686.820
Australian dolar	150.719	69.302
Yuan	-	212.192
Other currencies	59.920	38.512
Total	**9.360.068**	**11.992.811**

The amounts included in the item non-current assets are all domestic less the amount of the long-term trade receivables which are detailed below by geographic areas, Spain and Abroad, in 2013 and the year 2012:

Market	2013	2012
	12/31/2013	12/31/2012
Domestic	3%	0%
International	97%	100%
Total	**100%**	**100%**

The most relevant country in non-current assets is USA which amounts to EUR 3,897,977 (3,716,982 at 31st December 2012).

The directors of the parent Company believe that the carrying value of trade receivables and other accounts receivables are close to fair market value.

Furthermore, non-current trade receivables on the asset side include the customer balances with a maturity date longer than one year. This valuation involves a decrease of this item and of the profit before taxation that amounts to EUR 452,687 (330,216 euros at year-end 2012).

Regarding to current receivables, at 31st December 2013, the Group has abandoned non-collectable accounts amounting to EUR 64,032. These receivables had been registered as doubtful debts in 2012.

Damaged amounts balance at year-end reached up to EUR 119,916 (183,948 euros in 2012).The variation corresponds to 64,032 euros discharged as non-collectable at year end.

The maximum exposure to the credit risk at the reporting date is the fair value of each of the categories of the aforementioned receivables. The Group does not maintain any guarantee as insurance.

The fair value of financial assets is not substantially different from book value.

At 31st December 2012, there was a right of charge amounting to EUR 207,639 guaranteeing a delay with the Treasury (Note 16). Corresponding to a contract with an international client serving as the guarantee of the performance by the Group of those obligations up to the total amount agreed upon, and of the present and future yields.

At December 2013, the Treasury sent a notification regarding the cancellation of said guarantee since the Company had met its guaranteed economic obligations.

Similarly, the Social Security Treasury has granted the parent Company a delay on the amount of EUR 433,465 which has been guaranteed with the transfer of the economic rights of three clients. At year-end no receivable corresponding to such clients is registered.

Classification of financial assets (Notes 9 and 10)

	Euro					
	Non current financial assets					
	Equity instruments		Debt securities		Credits, derivatives, other	
	2013	2012	2013	2012	2013	2012
Available for sale assets	26,383	28,183	-	-	-	-
Loans and accounts receivables	-	-	-	-	4,171,510	3,979,292
Total non current	26,383	28,183	-	-	4,171,510	3,979,292
	Current financial assets					
	Equity instruments		Debt securities		Credits, derivatives, other	
	2013	2012	2013	2012	2013	2012
Assets held for trading	164	181	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and accounts receivables	-	-	-	-	6,779,680	8,609,042
Total current	164	181	-	-	6,779,680	8,609,042
Total	26,548	28,364	-	-	10,951,190	12,588,334

11. Cash and other cash equivalents

The details of this heading in the accompanying Consolidated Statement of financial position are as follows:

Euro	12/31/2013	12/31/2012
Cash	1,158,007	2,911,348
Cash equivalent	139	1,931
Total	**1,158,146**	**2,913,279**

These reserves are freely available for distribution.

12. Equity

Share Capital

At 31st December 2013, the registered capital of the parent Company, Zinkia Entertainment, S.A. consisted of 24,456,768 ordinary bearer shares represented by book entries with a par value of EUR 0.10 each, fully subscribed and paid in.

All of the shares representing the capital of the parent Company have traded on the Mercado Alternativo Bursátil Empresas en Expansión (MAB) since July, 15th 2009.

At 31st December 2013, the share capital was broken down as follows:

Shareholder	% Interest
Jomaca 98, S.L.	64.71%
D. Miguel Valladares	11.20%
Stock market and others	22.94%
Treasury shares	1.15%
Total	**100%**

The parent Company is governed by the terms of the Capital Companies Act which establishes a minimum capital of EUR 60,000 for public limited companies.

The main capital management objectives of the Zinkia Entertainment Group are to ensure the long and short term financial stability of the Group, the positive evolution of its shares, the proper financing of its investments and the reduction of debt levels. This capital management policy is designed to optimise the financial structure by creating value for shareholders through access to financial markets at competitive costs that allow the Group to cover the financing needs of its business plan and investments which cannot be covered through self-funding. The table below shows the leveraging, understood as the ratio between financial debt and net equity:

Euro	12/31/2013	12/31/2012
Non-current financial liabilities	6,900,181	6,827,306
Current financial liabilities	4,378,173	4,572,298
Cash and cash equivalents	(1,158,146)	(2,913,279)
Net Debt	**10,120,208**	**8,486,325**
Equity of the parent	9,121,049	10,358,128
Equity of the parent	**9,121,049**	**10,358,128**
Leverage	**110.95%**	**81.93%**

Share premium account

The revised Text of the Spanish Capital Companies Act expressly permits the use of the balance of the share premium to increase capital and places no specific restrictions on the availability of said balance.

Legal reserve

The legal reserve is funded in compliance with Article 274 of the Spanish Corporate Act, which stipulates that an amount equal to 10% of the the yearly profits must be transferred to this reserve until it represents at least 20% of share capital.

The legal reserve is not available for distribution. Should it be used to offset losses in the event of no other reserves being available, it must be replenished out of future profits.

The legal reserve at 31st December 2013, amounts to EUR 330,475 (EUR 237,262 at 31st December 2012).

Other reserves

These include the reserves of the parent Company which stood at EUR 918,423 and EUR 757,091 at 31st December 2013 and 31st December 2012 respectively, and those of the subsidiaries which totalled EUR (403,959) and EUR 190,440 on the same dates.

Treasury shares

This year, the parent company carried out certain transactions with its own shares, recording the transactions as changes in the Group's equity.

The changes under the heading of "Treasury Stock" on the Consolidated Statement of financial position during 2013 are as follows:

Euro	Number of shares	Euro
Balance at January, 1st 2013	281,503	403,841
Additions	347,554	404,187
Disposals	(347,554)	(404,187)
Balance at December, 31st 2013	**281,503**	**403,841**

The changes during 2012 were as follows:

Euro	Number of shares	Euro
Balance at January, 1st 2012	579,367	950,560
Additions	36,122	39,369
Disposals	(333,986)	(586,088)
Balance at December, 31st 2012	**281,503**	**403,841**

The treasury stock in the Company's possession at 31st December 2013 represented approximately 1.15% (1.15% at December, 31st 2012) of the share capital with a nominal value of EUR 28,150 (EUR 28,150 at December, 31st 2012) and an average acquisition price of EUR 1.09 per share (EUR 1.09/share at December, 31st 2011). The average sale price of the Company's treasury stock at 31st December 2013 was EUR 1.75 per share (EUR 1.75 per share at December, 31st 2012).

The result of the purchase and sale of treasury stock in the current year is a loss of 185,793 euros registered in reserves (157,170 euros in 2012)

Dividends

The Group did not pay any dividends in 2013 nor does it intend to do so. The same was true for 2012.

Minority interests

At 31st December 2013 the minority shareholders of Cake Entertainment Ltd. controlled 49% of the company's share capital.

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13. Deferred income

This heading on the liability side of the Consolidated Statement of financial position includes the capital grants received by the Group not yet charged to income.

The details are as follows:

Granting entity	Euro	Purpose	Grant date
Education, Audiovisual and Culture Agency	150,000	Pre-production of 3 audiovisual works	6/11/2007
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	3/8/2010
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	3/8/2010
Ministry of Culture	46,469	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	3/8/2010
Ministry of Culture	60,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2012	7/11/2012

Grants are recognized in the current year to be considered as non refundable. The decreases correspond to the charge to income and the tax effect, result of applying a tax rate (Note 16).

The Group satisfies the requirements to be considered as non-repayable grants.

There were no changes in this heading in 2013. The detail of this caption compared to 2012, is shown below:

	12/31/2013	12/31/2012
Starting balance	130,978	105,542
Increases	64,086	46,469
Allocation to profit	(16,342)	(12,554)
Other decreases	(24,207)	(8,479)
Ending balance	**154,515**	**130,978**

Current accruals

This amount arises in 2012 as a result of the agreement signed for development of content in educational *apps* concept. In accordance with the agreement, in October was invoiced the amount for seven apps developed. Accordance with the accounting standards applied by the Group, incomes from this project will accrue at the delivery of materials. This item will decrease according to allocation of incomes. In 2013 revenues were registered in the profit and loss account amounting to 1,248,256 euros.

14. Financial liabilities

The following table shows the details of the financial debt of the Zinkia Entertainment Group:

	12/31/2013		12/31/2012	
Euro	Current	Non-current	Current	Non-current
Debentures and bonds	33,049	2,238,000	2,027,004	-
Bank loans	1,296,396	555,917	1,379,203	759,295
Other payables to banks	168,679	92,842	494,991	-
Derivative	-	-	-	53
Participating loans	-	500,000	-	500,000
Other borrowings	2,880,049	3,513,422	671,100	5,567,958
Total	**4,378,173**	**6,900,181**	**4,572,298**	**6,827,306**

On November, 11st 2010, the parent Company issued debt securities pursuant to the terms of Stock Market Act 24/1988 of July, 28th and the regulations that developed the law.

The final conditions of the issue are as follows:

Number of securities	2.238
Unit par value	1.000
Issue price	100%
Annual interest rate payable annually	9,75%
Amortisation of securities	12th November 2013
Amortisation system	Par

As stated in note 2.f.1) in these statements, after the new bond issue failed for the reasons explained, and given the manifest impossibility to meet the next milestones in the pay back of the financial debt, such as the amortization to maturity in November 2013 of the debenture bond issue "Simple Debentures Zinkia 1st issue", the parent Company requested, on October 31st 2013, the legal procedure under art. 5 bis of the Insolvency Act in order to renegotiate the payment conditions and reach an agreement that would afford the total repayment of obligations.

And as consequence, at the General Meeting of Bondholders of the "Zinkia's Simple Debentures 1st Issue" of 2010, which took place on December 9th 2013, it was agreed the modification of the Final Terms of "Zinkia's Simple Debentures 1st Issue" as follows:

Number of securities	2,238
Unit par value	1,000
Issue price	100%
Annual interest rate payable annually	11%
Amortisation of securities	11/12/2015
Amortisation system	Par

Unfortunately, as stated above, the Group decided to file for the declaration of voluntary arrangement with creditors due to the refusal of renegotiation by private lending institution regarding an amount of EUR 2,500,000 (Note 19) .

The submission of voluntary arrangement with creditors made the negotiation process with the main creditors null and void, on hold of the resolutions issued in the different stages of the procedure. The Group intends to present a Proposal of Arrangement that Bond holders will adhere ,or not, and afterwards, if such Proposal is approved by the majority required by Law, it shall be approved by the insolvency administrator or by the competent judge, depending on the circumstances.

The maturity dates of these financial liabilities are shown on the table below:

Euro		
Maturity	**12/31/2013**	**12/31/2012**
2013	-	4,572,298
2014	4,378,173	3,002,827
2015	2,662,183	255,448
2016	451,327	328,671
2017	943,509	824,275
2018 & subsequent	2,843,162	2,416,085
Total	**11,278,354**	**11,399,604**

At 31st December 2013 there was no unused balanced corresponding to the credit line.

At 31st December 2012 the situation was the same.

All of the Group's debt is denominated in EUR except for the credit held by the Cake Subgroup which is denominated in Sterling Pounds.

The average weighted rate of reference of the Group's financial liabilities at 31st December 2013, was 6,66%. At the end of 2012, the rate was 6,39%. The detail is as follows:

Financing Sources	
Bonds issue	11.00%
Private Loan	9.75%
Financial entities and other	4.00%
Average weighted rate	**6.66%**

The Group's debts are shown on the following table based on the interest rate to which they are referenced:

Euro	12/31/2013		12/31/2012	
	Euro	%	Euro	%
Fixed rate	9,250,459	82%	9,531,132	84%
Variable rate	2,027,895	18%	1,868,472	16%
Total	**11,278,354**	**100%**	**11,399,604**	**100%**

At 31st December 2013, the Group holds overdue loan obligations

The due, unpaid balances with financial institutions at December 31st 2013 amount approximately to 818,054 euros. As it has been mentioned in note 2f), in spite of the successful negotiations reached by the parent Company with the different Committees from all financial institutions since they had already approved of the refunding operations, at 26th February 2014 Zinkia's Board of Directors decided to file the declaration of Arrangement with Creditors due to the refusal by a private entity to sign a refinance agreement of a debt amounting to EUR 2,500,000. As a consequence the negotiation process with the main creditors, whatever their nature, are null and void. Since then, the Company has been working on a Viability Plan that will afford to set some payment deadlines in order to meet all of the Company's debt. At the time when these Annual Consolidated financial statements are being prepared, the parent Company is working internally on a proposal of agreement containing the conditions to be offered to each creditor group.

15. Derivative financial instruments

The total fair value of a hedging derivative is classified as a non-current asset or liability if the time remaining to maturity of the hedged item is more than 12 months and as a current asset or liability if the time remaining to maturity of the hedged item is less than 12 months.

At 31st December 2013 and 2012 the parent Company has signed a C.A.P. swap contract with an issue premium of EUR 3,950. This C.A.P., at year-end has a positive assessment of EUR 3. The notional principal of the interest rate on swaps outstanding at December 31, 2013 and 2012 amounted to 200,000.

At 31st December 2013 fixed interest rate was 1.95%. The floating interest rate was 12M Euribor. Gains/ losses recognised in equity under "Adjustments due to change in values " for interest rate swaps contracts at 31st December 2013 will be transferred to the income statement.

16. Deferred taxes, income tax and other taxes

The changes under the heading of "Deferred tax assets" and "Deferred tax liabilities" on the Consolidated Statement of financial position are as follows:

Euro	12/31/2012	Additions	Reductions	12/31/2013
Tax credits for tax-loss carryforwards	1,393,359	701,564	-	2,094,923
Other tax credits	3,032,400	191,879	-	3,224,279
Deferred tax assets	**4,425,759**	**893,443**	**-**	**5,319,202**
Temporary differences - amortisation	18,627	2,386	-	21,013
Reversal temporary differences - amortisation	(6,698)	(4,894)	-	(11,592)
Temporary differences-deferred income	43,659	10,915		54,574
Tax effect expense recognized in equity	18,000	-	(18,000)	-
Deferred tax liabilities	**73,588**	**8,407**	**(18,000)**	**63,994**

The evidence supporting the recognition of assets by deferred tax is detailed as follows:

- Outstanding tax loss carry forwards from previous years.

DESCRIPTION	TO OFFSET	TERM
Tax loss carryforward FY 2013	1,343,042	2030/2031
Tax loss carryforward FY 2011	704,683	2029/2030
Tax loss carryforward FY 2010	3,014,994	2028/2029
Tax loss carryforward FY 2009	1,920,359	2027/2028
TOTAL	**6,983,078**	

- Outstanding double tax deductions from previous years.

YEAR	DESCRIPTION	TERM	OUTSTANDING DED.	DEADLINE
2013	International (art. 31 C.I.T.)		91,426	2020
2012	International (art. 31 C.I.T.)		66,521	2019
2011	Intercompany (art. 30.1 and 3 C.I.T.)	-	1.14	2018
2011	International (art. 31 C.I.T.)	-	95,048	2021
2010	Intercompany (art. 30.1 and 3 C.I.T.)		1.50	2017
2010	International (art. 31 C.I.T.)		76,978	2020
2009	Intercompany (art. 30.1 and 3 C.I.T.)	-	1.61	2016
2009	International (art. 31 C.I.T.)	-	60,455	2019
2008	Intercompany (art. 30.1 and 3 C.I.T.)	-	2.11	2015
2008	International (art. 31 C.I.T.)	-	40,693	2018
2007	International (art. 31 C.I.T.)	-	32,672	2017
TOTAL			463,801	

- Outstanding investment deductions from previous years.

YEAR	DESCRIPTION	TERM	OUTSTANDING DED.	DEADLINE
2012	Foment AE'S	25	6,630	2027
2012	Research and development expenses	25	101,695	2027
2011	Film productions	25	312,295	2026
2011	Non-profit entities donation	-	158	2026
2010	Technology, information and comunication investment	25	222	2028
2010	Exporting entities	25	5,002	2025
2010	Professional training expenses	25	34	2025
2010	Non-profit entities donation	-	2,392	2025
2009	Technology, information and comunication investment	25	12,427	2027
2009	Exporting entities	25	1,945	2024
2009	Professional training expenses	25	43	2024
2009	Non-profit entities donation	-	8,049	2024
2008	Research and development expenses	25	57,288	2026
2008	Technology, information and comunication investment	25	633	2026
2008	Film productions	25	61,859	2023
2008	Exporting entities	25	5,968	2023
2008	Professional training expenses	25	350	2023
2008	Non-profit entities donation	-	13,843	2023
2007	Research and development expenses	25	95,680	2025
2007	Technology, information and comunication investment	25	1,435	2025
2007	Film productions	25	317,823	2022
2007	Exporting entities	25	2,363	2022
2006	Research and development expenses	25	89,859	2024
2006	Technology, information and comunication investment	25	13,759	2024
2006	Film productions	25	614,160	2021
2006	Exporting entities	25	6,952	2021
2006	Professional training expenses	25	990	2021
2005	Research and development expenses	25	198,897	2023
2005	Technology, information and comunication investment	25	8,477	2023
2005	Film productions	25	591,521	2020
2005	Exporting entities	25	21,676	2020
2005	Professional training expenses	25	937	2020
2004	Research and development expenses	25	104,663	2022
TOTAL			2,660,025	

The item Other Tax Credits included double tax deductions and investment deductions which have been detailed above.

The deferred tax assets for outstanding tax loss carry-forwards are registered to the extent that it is probable that the Group's future taxable profits shall enable their implementation. The Group, despite its current situation, trusts its ability to generate future benefits, so it has not changed the accounting policy for this item.

Additions in tax credits on tax loss carry-forwards are mainly attributable to the activation of tax losses for the losses of the parent company amounting to 1,343,042 euros for the year 2013, and to the recognition of an additional 282,002 euros credit as deferred asset as a result of the upgrading to 30% of the assets recognized in previous years at 25%, it is estimated that 30% is the tax rate that will be compensated in the future. Pending tax bases compensation at 31st December 2013 amounted to 6,983,072 euros.

During the year, the Group has activated unused tax credits amounting to 91,721 euros. This amount relates primarily to deductions for double taxation, which amounted at year-end 2013 to 91,426 euros.

Furthermore, due to the tax legislation limitation on the expenses to be deducted from the year depreciation, at year end 2013 a deferred asset amounting to 100,158 euros is generated.

The Group considers recoverable tax credits in accordance with forecast figures submitted to the market.

As detailed above, the Group considers tax credits for tax-loss carry forwards based on estimations for the coming years and always taking into account tax credits deadlines set by tax regulations as a recovery term of not more than 10 years.

The Group has not tax credit for which have not been recognized deferred tax assets.

The consolidated "Corporate tax expense" was determined as shown on the following table:

Euro	12/31/2013	12/31/2012
Consolidated profit before taxes	(1,747,123)	1,544,494
Non-deductible expenses and non-computable income	464,610	113,458
Adjusted accounting profit	(1,282,513)	1,657,952
Corporate income tax	25,808	125,482
Withholding taxes from income earned abroad	148,797	152,421
Deferred tax	(936,153)	(160,936)
Application of tax credit to offset tax loss carryforwards	-	338,743
Income tax expense	**(761,547)**	**455,710**

Conciliation between profit before tax and income tax expense at rate applicable is as follows:

Euro	12/31/2013	12/31/2012
Consolidated profit before taxes	**(1,747,123)**	**1,544,494**
Effective rate	-8%	38%
Accrual expense C.I.T.	**139,997**	**587,404**
Non-deductible expenses effective rate effect	(8,101)	43,151
Reductions pending to apply	(893,443)	(174,845)
C.I.T.	**(761,547)**	**455,710**

Due to the fact that the Group obtains its revenues in different jurisdictions, the applicable rate is determined by the ratio between the income tax expense (excluding the tax credits effect) and the adjusted consolidated profit before taxes.

The details of the debit and credit tax balances of the Group with the tax authorities at 31st December 2013, compared to the previous year, are as follows:

Euro	12/31/2013	12/31/2012
Deferred tax assets	-	-
Tax credtis for tax-loss carryforwards	5,319,202	4,425,759
Corporate income tax assets	4,343	2,774
Other tax receivable	51,788	110,314
Tax receivables	**5,375,333**	**4,538,847**
Deferred tax liabilities	63,994	73,588
Corporate income tax payable	113,009	193,625
Other tax payable	462,452	473,469
Tax payables	**639,455**	**740,682**

At 31st December 2013, the Group has been granted a deferment from the Social Security related to social security contributions. The amount, with a maturity date of over a year, is laid down in the Group's non-current liabilities and amounts to 239,763 euros. Similarly, the amount laid down under the same concept in the Group's current liabilities, with a maturity date of under a year, amounts to 80,971 euros.

Such as stated in note 10, the Group has placed the economic rights of three clients as guarantee for such deferment. At year-end, no receivable amount corresponds to those clients.

Furthermore, during 2013 the Group has cancelled the other deferment granted by the Tax Authorities regarding the withholdings, such deferment is therefore ended (note 10).

17. Trade and other payables

Accounts payable include the outstanding balances due for purchases, services rendered and related costs. This caption also includes the payables derived from the acquisition of fixed assets.

Euro	12/31/2013	12/31/2012
Suppliers of services provided	5,101,232	5,302,066
Other	24,852	437,513
Total	**5,126,084**	**5,739,579**

The carrying amounts of the Company's payables are denominated in the following currencies:

	12/31/2013	12/31/2012
Euro	2,506,678	3,204,974
US dolar	2,151,248	2,063,400
Pound sterling	462,187	461,224
Yuan	5,971	9,981
Total	**5,126,084**	**5,739,579**

It is the opinion of the directors of the parent Company that the carrying value of these balances is close to their fair market value.

18. Balances and transactions with related parties

The transactions between the parent Company and its related-party subsidiaries were eliminated in the process of preparing these Annual Consolidated Financial Statements. The transactions between the parent Company and its subsidiaries are detailed in the respective Annual individual financial statements.

The balances maintained with related parties at 31st December 2013 and 2012, and their comparative study, are as follows:

	12/31/2013		12/31/2012	
Euro	Receivables	Payables	Receivables	Payables
Trade payables				
		59,926		
		333,287		
Jomaca 98, S.L.		-	-	20,184
Yeguada Floridablanca, S.A.	-	-	-	50,000
Loans, long term				
Other related parties	-	-	-	20,839
Loans short term				
Other related parties	-	27,927	-	88,111
Short-term loans				
Jomaca 98, S.L.	476,666	-	445,244	-
Total	**476,666**	**421,140**	**445,244**	**179,134**

The terms and conditions for the recovery of outstanding amounts with related parties are similar to the market being the average collection period about 45 or 120 days and usually by bank transfer. In relation to the credits granted to related parties, maturity and interest payment is annual although the term may be renewed by agreement between the parties.

The related-party transactions during this period were as follows:

	12/31/2013		12/31/2012	
Euro	**Expenses**	**Incomes**	**Expenses**	**Incomes**
Jomaca 98, S.L.	-	31,422	120,000	32,026
Yeguada Floridablanca, S.A.	-	-	50,000	-
HLT, Bv	152,640	-	150,480	-
Roatán Comunicaciones	119,635	-	-	-
Armialda	312,500	-	-	-
Other related parties	2,545	-	5,768	-
Total	**587,320**	**31,422**	**326,248**	**32,026**

Transactions with related parties are equivalent to those that were at arm's length transaction.
The related parties incomes and expenses are detailed as follows:

In 2013, income from Jomaca 98, S.L amounting to 31,422 euros correspond to financial income derived from the loan granted to that company (32,026 euros in 2012).

Expenses of Roatán, Armialda and HLT, Bv, correspond to advising services in communication, the former, and to consulting services, the latter.

In 2012, expenses of Jomaca 98, S.L, Yeguada Floridablanca, S.A and HLT, Bv correspond to management services.

Other related parties expenses correspond to financial expenses of the short-term loans.

19. Income and expense

Net sales turnover

The breakdown of this account for this period is as follows:

Euro	**12/31/2013**	**12/31/2012**
Content	8,646,692	7,469,454
Licensing	1,497,614	5,785,624
Advertising	1,679,057	998,985
Total	**11,823,363**	**14,254,063**

The breakdown by geographic area is as follows:

Market	12/31/2013	12/31/2012
Domestic	11%	4%
Abroad	89%	96%
Total	100%	100%

The most relevant country in the item of revenues is USA with EUR 5,657,233 at year-end 2013 and related to three clients. In 2012, USA was also considered significant, with an amount of EUR 5,656,996 related in three clients.

Other operating revenues

The breakdown of this account for this period is as follows:

Euro	12/31/2013	12/31/2012
Services rendered to staff	-	1,470
Own work capitalized	1,209,088	1,335,634
Release to Income Statement-deferred income	16,342	12,554
Totales	**1,225,430**	**1,349,658**

The amounts recognized under the item "own work capitalized for the intangible assets" correspond to the costs incurred in the production of the audiovisual projects of the Group.

Raw materials and consumables

All of the work done by other companies, particularly with regard to scriptwriting, recording, etc., is recognised under the heading of "raw materials and consumables".

Staff expenses

The composition of "Staff expenses" on the Consolidated Income Statement in the year is as follows:

Euro	12/31/2013	12/31/2012
Wages and salaries	2,230,847	2,847,053
Compensations	14,213	180,025
Employer social security costs	507,242	651,753
Other expenses	10,843	72,450
Total	**2,763,145**	**3,751,281**

The breakdown of employees of the Group by professional category and gender is as follows:

CATEGORY	12/31/2013		12/31/2012	
	Men	Women	Men	Women
5-YR DEGREE HOLDER	8	18	16	16
3-YR DEGREE HOLDER	3	1	4	1
SR.MANAGER	4	1	4	3
MANAGER 1	-	-	-	-
MANAGER 2	2	-	2	0
OFFICIAL 1	9	4	12	3
OFFICIAL 2	1	-	2	0
ASSISTANT	1	4	0	2
PROGRAMMER	-	-	1	-
OPERATOR	4	3	3	-
Total	**32**	**31**	**44**	**25**

The average number of employees at the consolidated level was determined based on the total number of employees of the fully consolidated companies.

External services

The composition of this caption is as follows:

Euro	12/31/2013	12/31/2012
Operating leases	363,304	439,955
Independent professional services	6,898,128	5,334,155
Other expenses	1,045,837	1,204,878
Impairment losses on commercial transactions	23	79,031
Total	**8,307,292**	**7,058,019**

Depreciation and provisions

The composition of this caption is as follows:

Euro	12/31/2013	12/31/2012
Intangible asset depreciation charge	1,105,031	1,560,887
Property, plant and equipment depreciation charge	43,629	56,457
Other	100,000	-
Total	**1,248,660**	**1,617,344**

At 31st December 2013, en Other provisions has registered the amount of 100,000 euros corresponding to the administrative decision from the CNMV (Note 21.b).

Financial income and expense

The composition of this caption is as follows:

Euro	12/31/2013	12/31/2012
Finance income due to credits to related parti	31,422	32,026
Other	495	5,510
Finance Income	**31,917**	**37,536**
Finance and similar costs	(1,450,291)	(974,466)
Exchange profit/losses	(455,532)	(155,435)
Impairment financial assets	(4,791)	(152,601)
Finance Cost	**(1,910,614)**	**(1,282,502)**
Net financial expense	**(1,878,697)**	**(1,244,966)**

Regarding the financial expenses, they correlate mainly to financial debts of the Group included under the heading de Debts and payable items.

Financial incomes are mainly due to a loan granted to the Group by Jomaca 98, S.L., classified under the heading Loans and receivables.

Regarding on the financial expenses, they are mainly due to the Group's financial debts included under the heading of payable financial liabilities.

20. Transactions with payments based in equity instruments

a) Transactions with senior management and members of the Board of Directors

On October 10th, 2011, the parent Company issued a Relevant Fact under Article 82 of Securities Market Law 24/1988 and Memorandum 9/2010 of the Spain's Mercado Alternative Bursátil (MAB) which reported on the Long-term Variable Compensation Plan according to resolution of the Board of Directors.

This plan provides delivery of shares to senior management and members of the Board of Directors of the parent Company. The characteristics and conditions are as follow:

- The aggregate number of shares to which all beneficiaries of plan will be entitled amounts to 1,200,000 shares.

- The plan will be 5 years long, the beneficiaries will be entitled to receive annually 20% of total shares to which they were entitled.

- The delivery of shares is conditional on at the time of execution of the plan, the value of the stock has appreciated by at least 30% of the value of share price as at June, 30th, 2011. In addition, the parent Company shall have obtained in the previous year distributable profits, fee only 30% thereof and subject to the availability of sufficient liquidity at that time, responding to the acquisition of shares. The delivery of shares corresponding to each beneficiary in terms of compliance with the established indicators can be made, in the opinion of the Board, by delivery of shares and delivery of the monetary equivalent of the combined value of trading for same at the time of execution.

At 31st December 2013, there were no conditions mentioned above to implement the plan, so no need to recognize both the good or services received as an increase in equity.

b) Other share based payment

On March 11th 2011, the parent Company issued a Relevant Fact under Article 82 of Securities Market Law 24/1988 and Memorandum 9/2010 of the Spain's Mercado Alternativo Bursatil (MAB) which reported signing a loan with a private institution for amount of euro 2,500,000. In the loan agreement signed by both parties set out the compulsory purchase of own shares by the parent Company amounting to euro 300,000, must provide, upon maturity of the loan -February 14th 2014- the amount of euro 2,200,000 plus shares acquired with the above euro 300,000. In the event that the value of the shares, at that date, is less than that amount, the parent Company undertakes to cover the difference in share or cash.

The Parent Company acquired treasury shares amounting to 300,000 euros as reflected in the funding agreement. Such treasury shares are listed in a ledger account and in a separate securities account, and dimes the company's equity. The endpoint in the Balance Sheet is the same as in the rest of the treasury shares, valued at weighted average price. In the event that the value of the shares at that date is less than such amount, the Company agrees to cover the difference in shares or cash.

Concerning this operation, the number of shares acquired amounted to 206,881, and their market value at year end was 148,954 euros and 239,982 euros at year-end 2012.

However, as stated in the contract, the Company will cover the difference in shares or cash.

At the date of presentation of these financial statements, the parent company has been unable to renegotiate a satisfactory agreement with loan holder entity. In this situation, the Board of Directors has decided to apply for the Voluntary Arrangement with Creditors on 26th February 2014 (Note 26).

21. Contingencies and committed guarantees

At 31st December 2013, the Group has registered a provision amounting to 100.000 euros corresponding to the administrative decision issued by the CNMV by virtue of a penalty process. As to the rest of the claims, no provision has been registered at year-end. This is due to the advice both of our legal department and our external law firm representing the Company, since they all estimate that the risk taken by the Group is low. On the date of preparation of these Annual Consolidated Statements, it is not as yet possible to estimate the economic impact, if any, deriving from those events.

At 31st December 2012, no provision had been registered for the claims.

At year-end the Group has the following guarantees:

Two guarantees granted by Avalmadrid SGR amounting to EUR 200,000 and EUR 2,000,000, both of them aimed at guaranteeing two loans for the same amounts.

The third guarantee amounts to EUR 748,198, granted by another entity whose funds for the pledge were deposited by a private entity at the parent Company's name.This guarantee has been required by the Ministry of Industry in order to obtain funds corresponding to the call for " Strategic Action for Telecommunications and Information Society",2012 annuity, within the Subprogram "Competivity, R+D"(Avanza programme).

Also, the parent Company has deposited 101,619 euros in cash at the General Deposit as a guarantee in favour of the Ministry of Industry, as required in order to obtain the corresponding aid of the call for "Strategic Action for Telecommunication and Information Society", 2013 annuity, within the Sub programme "Strategic Action for Digital Economy and Society":

22. Director and senior management compensation

Remuneration of the members of the Board of Directors

In 2013, as in 2012 the members of the Board of Directors received no remuneration for sitting at the Board.

In 2013, as in 2012, no contributions have been made to pension plans or funds fin favour of former or current members of the parent Company's Board of Directors. No such obligations were incurred during the year.

The members of the Company's Board of Directors have received no remuneration in respect of profit sharing or premiums. They received no shares or stock options during the year and nor have they exercised any options and nor do they have any options to be exercised. The parent Company is committed to the members of the Board, a plan for long-term variable remuneration consisting of the delivery of shares. (Note 20).

Compensation and loans to senior management personnel

In 2013, the remuneration received by members of the Board of Directors to carry out tasks of senior management in the Group amounted to EUR 196.251 (at year-end 2012 EUR 812,685). Also, the compensation received by other senior management personnel different from the members of the Board of Directors has totalled EUR 85.833 (at year-end 2012, EUR 186,738). The number of members considered as senior management staff has seriously decreased during 2013.

It should be noted that their labour contracts are complemented by private agreements containing special exit clauses. The compensation of said employees could amount to a 24 month worth salary, additional to the corresponding legal compensation per year worked, in the event some of the conditions in those agreements should take place.

Shareholdings and directorships held by board members in companies with identical or similar business activities activity

Article 229, paragraph 2 of the Spanish Capital Companies Act, as worded in Law 26/2003 (July 18th), whereby the Stock Market Act and the Spanish Capital Companies Act were amended to increase transparency in listed companies, obliges Board directors to inform the parent company of any shareholdings in companies engaged in activities that are the same as or similar or complementary to the company's corporate purpose, any offices or duties performed in such companies, and any activities that are the same as or similar or complementary to the company's objects, carried out for their own account or for the account of third parties.

To this end it is noted that the positions held by the members of the Board of Directors on the governing bodies of other Group companies are as follows: José María Castillejo Oriol is the Director of the company Sonocrew, S.L. and is also a member of the Board of Directors of Cake Entertainment Ltd, a Group company. These positions in Group companies are unremunerated.

The other members of the Board of Directors hold no shares in companies having the same, similar or complementary type of activity to that which is the social aim of the Company.

23. Environmental information

All operations designed mainly to minimise environmental impacts and protect and improve the environment are deemed to be environmental activities.

In 2013, there were no major environmental expenditures.

24. Earnings per share

Basic earnings per share

The basic earnings per share are calculated as the quotient between the net profit for the period attributable to the parent company and the weighted average number of ordinary shares in circulation during the period, without including the average number of shares of the parent company in the portfolios of Group companies.

Euro	**12/31/2013**	**12/31/2012**
Profit Attributable to the equity holders of the parent	(1,002,467)	1,019,289
Average number of shares during the year	24,445,677	24,445,677
Average number of treasury shares held	(281,503)	(430,435)
Average number of shares outstanding	24,164,174	24,015,242
Basic earning per share (euros)	**(0.0415)**	**0.0424**

Diluted earnings per share

The calculation is similar for diluted earnings per share, except that the weighted average number of shares in circulation is adjusted to account for the potentially diluting effects of stock options, warrants and convertible debt at the end of the year. The Zinkia Entertainment Group has not issued any instruments of this kind, so the basic earnings per share match the diluted earnings per share.

25. Auditors' fees

The professional fees for auditing Annual individual and consolidated financial statements in 2013 totalled EUR 9,500 (EUR 8,144 in 2012), EUR 8,847 were additionally accrued vis-à-vis other audit services regarding the revision of the first semester of the year (EUR 4,000 in 2012).

The parent Company also paid fees in the amount of EUR 41,160 to Garrido Abogados y Asesores Fiscales, S.L. during the same period (EUR 50.558 the previous year).

26. Events after the Financial Statement date

On 26th February 2014, the parent Company has applied for Voluntary Arrangement with Creditors such as stated in note 2.

27. Other disclosures

Information on deferred payments to suppliers. Third additional provision of Law 15/2010 of July 5th on the "Duty to Inform":

Pursuant to the terms of the above mentioned law, at year-end the parent Company held a balance payable to suppliers amounting to EUR 1,502,342 which exceeds the legally-established payment deadline. In 2013 the parent Company made payments to suppliers amounting to EUR 3,192,890, out of which 48% exceeded the legal deadline. The weighted average term of payment amounts to 293 days.

At the end of 2012 the parent Company held a balance payable to suppliers amounting to EUR 1,223,414 which exceeded the legally-established payment deadline. In that period, the parent Company made payments to suppliers amounting to EUR 1,970,000, out of which 42% exceeded the established legal limit. The weighted average term of payment amounts to 170 days.

Issuance of American Depositary Receipts (ADRs) on shares of the parent Company.

On November 10th 2011, the parent Company issued a Relevant Fact under Article 82 of Securities Market Law 24/1988 and Memorandum 9/2010 of the Spain´s Alternative Investment Market (Mercado Alternativo Bursatil–MAB) which reported on the approval by Securities Exchange Commission (SEC) of USA for the issuance of American Depositary Receipts (ADRs) on shares of the parent Company bound for placement among U.S. investors. Each ADR representing 5 shares of the parent Company .This transaction did not increase in capital or increase funding for the parent Company to be made with shares already issued.

Signed Annual Consolidated Financial Statements

These Annual Consolidated Statement are signed by all the members of the Board of Directors, at the time of the presentation of these statements during the Board of Directors meeting held in Madrid on March 31st 2014.

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES
CONSOLIDATED MANAGEMENT REPORT CORRESPONDING TO 2013

Business Performance and Company Situation

The current tension in the financial markets resulting from the current economic downturn has adversely affected the economic activity around the world and Spain in particular. The Group is conditioned by some of the trends that have taken place in the Spanish and international economy in recent years and the revenue from most of its products depend essentially on the state of markets and economies. These trends, among which we must include the slowdown in consumption and the limited bank funding, have affected sales of the products offered reducing therefore the Group income. The global economic crisis and the current adverse market situation in recent years has made it very difficult and burdensome for any operator to access credit. For the Group, this situation has worsened even further due to the existing difficulties in order to generate the cash flows necessary to meet the payment of its debts in the short term.

Zinkia has been working for almost two years in finding appropriate funding sources, analysing all possible alternatives to generate additional liquidity, so that the financial resources will be generated in order for the Company to be capable of meeting all of its commitments and of undertaking the investment projects in the Business Plan. Zinkia conducted the launch of two debt issues authorized by the National Securities Market Commission in 2013, in July and October. In absence of alternative sources of funding and given the outcome of the above referred debt issues, the parent Company was not capable of facing the milestones of the debt repayment at the end of 2013 and early 2014.

With the aim of protecting the assets of the Group and in order to allow the Group to continue with business as usual under the legal umbrella of protection, Zinkia filed on October 31, 2013, the legal procedure under art. 5bis of the Insolvency Act in order to renegotiate and continue negotiations with all the different creditors of the parent company.

During the process of debt negotiation with creditors, a refinancing agreement was reached with Bondholders, and main Financial Institutions and Trade creditors, yet ultimately no satisfactory agreement was reached with a private entity, holder of a loan to the parent company amounting to 2.5 million euros.

Given the situation and as an act of responsibility, the Board of Directors decided to submit an application for Voluntary Arrangement with Creditors last February 26th 2014.

All the above described is the reason why the 2013 figures have not reached the estimated forecast. Zinkia is today actively working in the preparation of this document, as well as in a payment plan and an early proposal of arrangement with the creditors of the company, in order to close a schedule of payments in the coming years to enable the Company to meet its commitments, and in turn, to continue on with its Business Plan. The Group estimates that, were the above arrangement accomplished, it shall be capable of reaching the expected results for the coming years.

During 2013 the turnover figure has dropped 17% summing up to 11,823.363 euros compared to the 14,254,064 euros of the previous year.

The "content" income has increased 16%, primarily generated from sales related to the delivery of the educational apps developed by the Group.

The "advertising" income has increased 68% over the previous year. This increase in sales is considerable, and in line with expectations, and as a consequence of ZInkia's decision to support this business line within its own sales plans, by adding new resources and efforts to it, the positive impact of it all has been remarkable. Zinkia still expects great results in the coming years.

The year Net sales for the income corresponding to "operating license" has significantly decreased over the previous year. The current situation of the Group has led to delays in the negotiation of license agreements which, in some cases, can last for months. It should be noted that, although the number of licenses has decreased, in recent months major milestones have been reached which lay the foundations of the increase in sales and business activity for the future. As an example, Zinkia has reached agreements with prestigious firms in order to collaborate in the commercial exploitation of merchandising licenses, by means of agency agreements in key territories for the Group, such as the United States, Britain and Italy.

In the past financial year 2012 Zinkia signed a licensing agreement for the distribution of infant care products in the territory of the United States that represented 31% of the total turnover. Since this type of contracts, that individually represent a high percentage of total sales, are not necessarily signed every year, such agreements may not be recurring. Therefore, ZINKIA considers interesting analysing the evolution of the 2013-2012 sales excluding the effect of that specific contract. Figures are shown as follows:

€	2012*	2013
Content	7,469,453	8,646,692
Licensing	1,369,176	1,497,614
Advertising	998,985	1,679,057
Total	**9,837,614**	**11,823,363**

** Figures without consider Diapers agreement*

It may be noted the good performance of the sales considered without the Diapers agreement, as well as the positive trend showed by the different business lines.

Zinkia is currently implementing business strategies worldwide that shall enable it to achieve its objectives and continue with the geographic diversification of sales. However, it is to be noted that the business has been affected by the economic situation experienced by the parent Company.

Due to the difficult conditions of access to funding, Zinkia has conducted a thorough survey of the expenditure items, so that it has been capable of generating savings on almost all cost items over 2012.

Staff costs were reduced by 26% since in 2012 a workforce reduction was implemented by means of a collective dismissal of workers, and therefore the number of employees in 2013 was smaller. Other operating expenses have been increase by 18%, however it should be noted that this is due to the part of variable cost that is obtained in terms of sales. Sales in the item "content" have been larger and, likewise, the commercial fees under this heading have been higher.

The Company's Working Capital presents a negative figure amounting to EUR 2.4 million at end year end in 2013. Given the situation and as an act of responsibility, the Board of Directors decided to submit an application for Voluntary Arrangement with Creditors procedure last February 26th 2014.

At December 31st 2013 the financial position of the Group shows a Net Financial Debt, of 10,265,368 euros, and Equity amounts to 9,459,202 euros showing a debt ratio over equity of 109%.

Events after the date of end of these year-end Financial Statements

The Board of Directors decided to submit an application for Voluntary Arrangement with Creditors procedure last February 26th 2014.

Outlook for the Company

Zinkia is today actively working in the preparation of this document, as well as in a payment plan and an early proposal of arrangement with the creditors of the parent company, in order to close a schedule of payments in the coming years to enable the Company to meet its commitments, and in turn, to continue on with its Business Plan. The Group estimates that, were the above arrangement accomplished, it shall be capable of reaching the expected results for the coming years.

For the year 2014 and the following ones, a substantial increase is expected in the turnover of the Company based on the introduction of Pocoyo into new markets, the increase of business lines regarding content and advertisements, as well as the developing of new audiovisual content and brands.

With regard to new projects, the Company is still working on their development and on the achievement of commercial and financial agreements that will afford the stage of production. Projects in progress shall not be abandoned, but their production is postponed to coming years when the economic and financial situation shall be adequate.

Research & Development

Zinkia engages in ongoing research, development and technological innovation, always striving to optimize our production processes and acquire technical skills that allow us to maintain ourselves as a leading company in the sector.

Financial Risk Hedging

In particular, at December 31st 2013, 82% of the total debt of the Company was referenced to fixed interest rates. This interest rate amounted to 84% at the previous year-end, which represents a higher financial cost to the one that would apply if the debt were referenced to variable interest rates (i.e. Euribor), due to reduced levels the later currently present. As a result of this unfavourable situation, the cost of credit has increased and its availability has been reduced, which has caused many companies to experience difficulties or even the impossibility to make investments financed with credit and bank loans. Furthermore, these funding difficulties are further aggravated due to the current crisis in the banking and financial sector in Spain, where the company is headquartered. At December 31st 2013 the Group average debt rate is 6.66%. At year end 2012 the average debt rate was 6.39%.

However, regarding floating-rate debt, the Group performs interest rate hedging transactions in order to reduce the impact of the fluctuations in interest rates on the Income Statement.

Acquisition of treasury shares

In 2013, 347,554 treasure values were acquired on the Company's will and subsequently sold, obtaining an overall result of 185,793 euros recorded as an increase in equity in the Balance. At December 31st 2013, 281,503 shares are held by the parent Company with a nominal value of 28,150 euros, and representing 1.15% of share capital.

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DECLARATION OR RESPONSIBILITY FOR FINANCIAL REPORTING

The members of the Board of Directors of ZINKIA ENTERTAINMENT, S.A. listed below declare that, to the best of their knowledge, the financial information for the Company, which includes the Individual and Consolidated Financial Statements of ZINKIA ENTERTAINMENT, S.A. and subsidiaries as at the end of the year 2013, formulated by the Board of Directors at the meeting held on March 31st 2014 and prepared according to the applicable accounting principles, offer a true image of the equity, financial situation and results of ZINKIA ENTERTAINMENT, S.A. and subsidiaries and that the Directors' Report includes an accurate analysis of the Company's business results and position, along with a description of the principal risks and uncertainties faced by the Company and subsidiaries.

Madrid, March 31st 2014

Mr. José María Castillejo Oriol

Mr. Alejandro Ballestero de Diego

JOMACA 98, S.L., represented by
Mr. Julio Covacho López

TEMPLATE SCHEDULE II ANNUAL REPORT ON CORPORATE GOVERNANCE OF ENTITIES -OTHER THAN SAVINGS BANKS- THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

ISSUER IDENTIFICATION

YEAR END REFERENCE DATE 31st DECEMBER 2013

C.I.F. A82659061

Company name: ZINKIA ENTERTAINMENT S.A.

Company address: CALLE INFANTAS 27-28004 MADRID

ANNUAL REPORT ON CORPORATE GOVERNANCE OF ENTITIES -OTHER THAN SAVINGS BANKS- THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

A.- OWNERSHIP STRUCTURE

A.1 Specify the most significative shareholders or holdings in your entity at year-end date:

NIF or CIF	**Name or company name of the shareholder or holding**	**% over capital share**
02310993E	MIGUEL FERNANDO VALLADARES GARCIA	11,20
B82158379	JOMACA 98, S.L.	64,71
05257311V	ALBERTO DELGADO GAVELA	3,75

A.2 Specify, in each case, the family, commercial, contractual or corporate relations among significant shareholders or holdings, as long as they are known by the entity, save if they are hardly relevant or derive from ordinary trading:

NIF or CIF	**Names or company names related**	**Type of relation**	**Brief description**

A.3 Specify, in each case, the family, commercial, contractual or corporate relations among significant shareholders or holdings, as long as they are known by the entity, save if they are hardly relevant or derive from ordinary trading:

NIF or CIF	Names or company names related	Type of relation	Brief description
B82158379	JOMACA 98, S.L.	CONTRACTUAL	LOAN GRANTED BY ZINKIA ENTERTAINMENT S.A.

A.4 Specify, in each case, the restrictions on voting rights as well as any restriction on the acquisition or transfer of capital share:

YES <u>**NO**</u>

Description of restrictions
None

B.- SHAREHOLDERS MEETING OR EQUIVALENT BODY

B.1 List the List the quorum for the Shareholders Meeting or equivalent body established by the company's statutes. Describe how it differs from the minimum provisions of the Companies Act (LSC), or the rules applied to it.

As stated in Article 10 of the Company's Statues, the Shareholders Meeting is ruled by the Law, the Company's Statutes and the Regulations of the Shareholders Meeting which develop and complete the legal and statutory regulations in matters relating to their call, preparation, and development, and the exercise of the right to information, support, representation and shareholder voting.

According to Article 15 of the Rules of the Shareholders Meeting:

"The Shareholders Meeting shall be validly constituted on first call when the shareholders present, or represented, hold at least twenty-five percent of the share capital with voting rights. At second call, any constitution regardless of the attending share capital shall be valid."

For the ordinary or extraordinary Shareholders Meeting to resolve on the increase or reduction of capital and any other amendment of the Company's Statues, the issuance of bonds, the elimination or restriction of the right of first refusal of new shares and the transformation, merger, spin-off or transfer of assets and liabilities and the transfer of the registered office abroad, it is necessary, in the first meeting, a quorum of shareholders present or represented hold of at least fifty percent of capital share with voting rights.

On second call, a twenty-five percent of the capital will be sufficient, although when shareholders represent less than fifty percent of the share capital with voting rights, the agreements referred to in this paragraph may be taken only validly by the affirmative vote of two-thirds of the capital share present or represented at the Shareholders Meeting

Absences occurring once the Shareholders Meeting is constituted shall not affect the validity of the meeting. "

The regime set out in the Regulations of the Shareholders Meeting of the Company does not differ from the minimum provisions of the Companies Act.

B.2 Explain the rules of adoption of corporate resolutions. Describe how it differs from the regulation under the CA, or in any other applicable regulation.

As stated in Article 13 of the Company's Statutes and Article 26 of the Rules of the Shareholders Meeting, resolutions will be approved by a simple majority of the votes of the shareholders present or represented, except in cases where the applicable law or the statues require a greater majority. To increase or reduce capital or any other amendment of the Company's Statues, the issuance of bonds, the elimination or restriction of the right of first refusal on new shares as well as the transformation, merger, spin-off or transfer assets and liabilities and the transfer of residence abroad, the affirmative vote of two-thirds of the capital present or represented at the Meeting is required when, on second call, shareholders representing twenty-five percent or more of the share capital with voting rights without reaching fifty percent.

This form of action does not differ from provisions in the Companies Act.

Company's statues. Article 10.- General Shareholders Meeting.

[...] Shareholders attending the General Meeting, validly called for or universal, shall decide on the matters within the competence of the Meeting, by the legal majority or by the majority established in the statues [...]

Company's statues. Article 13.- Acting in General Meetings.

[...] Each of the items on the agenda will be discussed and voted on separately, and must, in order to be valid, resolutions must be adopted by a simple majority of votes unless legally a different majority is required for any kind of particular resolutions [...]

B.3 Briefly indicate the resolutions adopted by the general meetings or equivalent bodies during the year referred to in this report, and the vote percentage that served to adopt such resolutions.
L

A General Shareholders Meeting took place on 27th June 2013, and the following resolutions were submitted tot he approval of the Shareholders, and were actually approved by the following favour votes:

First.- *Exam and approval, where possible, of the Annual Financial Statements (Balance sheet, Income, Change in Equity, Cash-Flow and Memoir) and Management Reports, corresponding to ZINKIA ENTERTAINMENT, S.A. and its consolidated Group in 2012.*

Approved by 100% votes.

Second.- *Exam and approval, where possible, of the proposal for the distribution of results for the financial year*

Approved by 100% votes.

Third.- *Exam and approval, where possible, of the Boar of Directions management.*

Approved by 96,85 % votes.

Fourth.- *Ratification and appointment of directors.*

Approved by 96,85 % votes.

Fifth.- *Delegation of powers to the development, notarisation and registration of previous resolutions and also to make the mandatory filing of the annual individual and consolidated financial statements in the Commercial Register.*

Approved by 100% votes.

B.4 Specify address and access to the website of the entity containing the information on corporate governance.

The information on Corporate Governance can be found by accessing the company's website www.zinkia.com, selecting the bottom information for shareholders and investors placed on the left side of the web menu. The complete address to reach that point is as follows:

http://www.zinkia.com/informacioncorporativa/

B.5 Indicate whether there have been meetings of the various unions that might exist, of the holders of securities issued by the entity, the purpose of the meetings held during the year to which this report and refers major decisions taken.

Zinkia has currently issued Simple bonds denominated Debentures Simple ZINKIA 1st ISSUE, which Final Terms were approved by the CNMV on October 7th 2010, under the Base Paper of the Program for Fixed Income Securities registered with the CNMV at September 28th, 2010.

Given the economic situation of the Company, at October 8th 2013 the market was communicated by Relevant Fact published on the same date, that the Commissioner of the Bondholders, Mr. Hilario Alfaro Moreno had proceeded to call for a Bondholders Meeting,which was scheduled to be held at the Barbieri room of the Hotel Lusso Infantas, located at calle Infantas 29 of Madrid on November 8th 2013, at 12:00 am on first call, and at the same time and in the same venue, on December 9th 2013, on second call, with the following agenda:

First.- Exam and approval, where possible, of the management by the Commissioner of the Bondholders.

- Second.- Ratification of the appointment of the Commissioner of the Bondholders or appointment of a new Commissioner.
- Third.- Exam and approval, where possible, of the Rules of the Bondholders Union.Fourth- Writing-off date of the bonds. Resolutions to be adopted in this respect.
- Fifth.- Powers delegation.
- Sixth.- Reading, and, where possible, approval of the meeting's deed.

The Meeting took place on second call, and the following resolutions were agreed upon: First.- Exam and approval, where possible, of the management by the Commissioner of the Bondholders.

Approved by 100% votes.

Second.- Ratification of the appointment of the Commissioner of the Bondholders or appointment of a new Commissioner.

Approved by 100% votes.

Third.- Exam and approval, where possible, of the Rules of the Bondholders Union.

Approved by 100% votes.

Fourth- Writing-off date of the bonds. Resolutions to be adopted in this respect.

Approved by 99,37% votes.

Fifth.- Powers delegation.

Approved by 100% votes.

Sixth.- Reading, and, where possible, approval of the meeting's deed.

Approved by 100% votes.

C ENTITY'S MANAGEMENT STRUCTURE

C.1 Board or managing body

C.1.1 List the maximum and minimum number of board directors or members in the managing body, as provided by the Company's Statues:

Maximum number of board directors/ members managing body	**10**
Minimum number of board directors/ members managing body	**3**

C.1.2 Fulfil the following table on the board directors or managing body members, and their different status:

BOARD DIRECTORS/MEMBERS OF THE MANAGING BODY

Director NIF or CIF	**Name or company name of the director/ managing body member.**	**Representative**	**Last date of appointment**
00.397.125-F	José Maria Castillejo Oriol		26/05/2009
B-82158379	Jomaca 98, S.L.	Julio Covacho López	26/05/2009

		(002253830Z)	
05.257.311-V	Alberto Delgado Gavela		26/05/2009
03.849.152-X	Alejandro Ballestero de Diego		26/05/2009
B-83522201	Angel-Martin Ortiz Abogados, S.L.	Angel-Martin Ortiz Bueno (02616945M	27/06/2013

C.1.3 Identify, in each case, the members of the board or the managing body holding a position as directors or managers in other entities part of the group holding:

Director NIF or CIF	Name or company name of the director/ managing body member.	Company name of the group entity	Group entity NIF or CIF	Position
00.397.125-F	José Maria Castillejo Oriol	SONOCREW, S.L.U.	B83363705	Sole Director
00.397.125-F	José Maria Castillejo Oriol	CAKE ENTERTAINMENT, LTD.	GB 927507412	Director

C.1.4 Fulfil the following table with the information related to the number of female directors in the board and their fees, as well as their evolution during the last four years:

	Number of female directors			
	Year t Number %	Year t-1 Number %	Year t-2 Number %	Year t-3 Number%
Board director	No female directors	-	-	-
Executive commission	No female member			
Audit Committee	No female directors			
Commission				

C.1.5 Fulfil the following table with the aggregate remuneration of the directors or members of the managing body, during the year:

Remuneration Concept	Thousands of euros	
	Individual	Group

Fixed remuneration	0	0
Variable remuneration	0	0
Allowances	0	0
Other Allowances	0	0
TOTAL:	0	0

C.1.6 Identify those managing directors who are not at the same time board directors or executive members of the managing body and specify their remuneration accrued during the year:

NIF or CIF	Name or company name	Position
002253830Z	JULIO COVACHO LOPEZ	DIRECTOR GENERAL
07496832M	LOREA GARCIA JAUREGUI	DIRECTOR LEGAL and HUMAN RESOURCES

Total remuneration of high managers (thousands euros)	193

C.1.7 Specify if the company's statutes or the rules of the board establish a time limit to the board of directors or the members of the managing body:

YES **NO**

Maximum number year mandates	0

C.1.8 Specify it the Annual Financial Statements, consolidated and individual, submitted to the approval of the board or managing body, are previously certified:

YES NO

Identify in each case, the person/people who have certified the Annual Financial Statements, consolidated and individual, in order to be prepared by the board or managing body,

NIF	Name	Position

C.1.9 Explain, where possible, the mechanism established by the board or managing body in order to prevent the annual individual and consolidated financial statements

from being submitted to the General Shareholders Meeting or equivalent body with qualifications in the audit report.

According to art. 39, 3 in the Rules of the Board of Directors of the Company, the Board of Directors shall try to prepare the final financial statements so as to avoid qualifications from the auditor. However, whenever the Board thinks suitable to hold on to its own criterion, the board shall explain publicly the content and the extent of its discrepancy.

C.1.10 Does the Secretary to the Board of Directors or Managing body hold the status of Director?

YES NO

C.1.11 Specify, when possible, the mechanism established to preserve the independence of external auditors, financial analysts, bank of investments and qualification agencies.

According to article 13 of the Rules of the Board of Directors of the Company, the Audit Committee will be in charge of liaising with the external auditors in order to receive information on any issues that may jeopardize their independence and any other data related to the audit process, as well as any other communications provided for in the auditing legislation and technical auditing standards.

C.2. Commissions of the board or managing body

C.2.1 List the managing bodies:

Body name	Number of members	Functions
Audit Committee	1	As detailed in C.2.3

C.2.2 Specify all the commissions in the board or managing body and their members:

EXECUTIVE OR DELEGATE COMMISSION

NIF or CIF	Name or company name	Position

AUDIT COMMITTEE

NIF or CIF	Name or company name	Position
B-82158379	JOMACA 98, S.L.SECRETARY MEMBER	

COMMISSION FOR APPOINTMENTS AND REMUNERATION

NIF or CIF	Name or company name	Position

COMMISSION FOR STRATEGY AND INVESTMENTS

NIF or CIF	Name or company name	Position

COMMISSION__________

NIF or CIF	Name or company name	Position

C.2.3 Describe the organization and operating rules, as well as the responsibilities of each commission of the board or member of the managing body. When possible, describe the powers of the managing director.

Draft limit 4.000 characters (3.572)
AUDIT COMMITTEE (AC) Members: from 3 to 5 Directors, mostly non executive and at least one of them being independent. 4 year mandate, re-elected after 1 year of the end of the mandate. President elected among the non executives. All the Committee members shall be appointed, when possible, according to their knowledge and know-how in accounts and auditing. Their mandate shall expire at the same time as their status as board directors, or, whenever the Board of Directors so agrees (BoD). At least two annual meetings are held in order to review the periodical financial data required by the market authorities and to be approved and published by the BoD. Meetings shall be held whenever the President so considers, and he shall always call for a meeting when the BoD or himself require a report or the adoption of proposals by the BoD, and whenever a member of the BoD should ask. The AC shall have the following functions, among others: - inform the Shareholders Meeting on the matters of its competence considered by the shareholders – Proposing to the BoD, before submitting to the Shareholders Meeting, the appointment of external auditors (conditions, mandate, revocation and renewal...) - Monitoring the internal systems of auditing; to watch over its independence and effectiveness – Review the accounts, watch over the compliance of the legal requirements and the suitable application of the accountancy principles, collaboration with the external and internal auditors – To know and monitor the elaboration process and integrity of the financial data, watching over the compliance of legal requirements and the application of accountancy criteria; to know and monitor the integrity and suitability of the internal control systems, and appointing or removing its heads – Revising the internal systems of control and risk management, in order to identify risks and disclaim them – Liaising the relation with the external auditors in order to receive information on questions that might imply a risk for their independence and in order to receive any other information related to the audit process, as well as any other information required by the audit regulations and its technical rules. - Monitoring the compliance of the audit contract,with the aim of reflecting clearly their report on the annual statements and the main content of the audit report, as well as evaluating the result of every

audit. - Revising the financial data that the Board has to submit periodically to the market and its monitoring bodies, making sure that the interim statements are prepared according to the same accounting criteria as the annual statements. - Exam the compliance of the Internal Rules of Conduct of the Rules of the BoD and the governance regulations, and submit the necessary proposals so as to improve. - Inform the BoD, prior to the adoption of resolutions on the following matters: a) creation or acquisition of holdings in entities with a special aim or headquartered off-shore, as well as other similar transactions and operations complex enough to impair the group transparency; b) related operations.

MANAGING DIRECTOR: The BoD can appoint 1 or more Managing Directors, on whom all powers that are transferable according to the law and Company's Statutes can be totally or partially delegated.

C.2.4 Specify the number of meetings held by the audit committee during the year:

Number of Meetings	2

C.2.5 If there is a commission for appointments, specify if all its members are board directors or members of the external body of administration.

YES No

D RELATED AND INTRA GROUP OPERATIONS

D.1 List the operations among the entity/entities in the group, and the entity shareholders, cooperative holders, holders of ownership rights or any other equivalent rights.

NIF or CIF	Shareholder Name or Company Name	Type of relation	Brief description	Amount
B82158379	JOMACA 98, S.L.	CONTRACTUAL	ACCRUED INTERESTS ON LOAN GRANTED BY ZINKIA ENTERTAINMENT S.A.	31
B81092645	Roatan Comunicación S.L.	CONTRACTUAL	PROVISION OF SERVICES TO ZINKIA ENTERTAINMENT, S.A.	119

D.2 Specify the operations between the entity/entities in your group, and the directors or members of the managing body, or executive directors of the entity.

NIF or CIF	Shareholder Name or Company Name	Type of relation	Brief description	Amount

B82158379	JOMACA 98, S.L.	CONTRACTUAL	ACCRUED INTERESTS ON LOAN GRANTED BY ZINKIA ENTERTAINMENT S.A.	31

D.3 List the intra-group operations.

The operations in force inside the Zinkia Group are as follows:

Distributions agreement between Cake Entertainment, Ltd. and ZINKIA ENTERTAINMENT, S.A. In order to distribute in television the audiovisual content of the latter in some territories in exchange for a fee or commission on the distributed content.

Reciprocal credit agreement between ZINKIA ENTERTAINMENT, S.A. and SONOCREW, S.L.U. Amounting to FOUR HUNDRED THOUSAND EUROS A YEAR (400.000 €/year).

D.4 Specify any mechanism established in order to detect, identify and solve the possible conflicts of interests between the entity and its group, its directors or members of the managing body, or executive directors.

There is no conflict of interest whatsoever, according to the Corporates Act.

To this aim, the Company has established the following mechanism in art. 29 of the Rules of the Board of Directors:

1. A Director must disclose the existence of any such conflict, direct or indirect, as it may have with the Company's interest. The affected Director must refrain from participating in the resolutions or decisions regarding the transaction to which the conflict relates.

2. Directors also must disclose such direct or indirect interests as either they or the related persons referred to in article 231 of the Capital Companies Act may have in the capital of a company with a business that is the same as, or comparable or complementary to the business constituting the corporate purpose, and also will disclose the offices or functions they fill or perform therein.

3. The conflicts of interest contemplated in the preceding subsections will be reported in the notes to the financial statements.

E CONTROL AND RIKS SYSTEMS

E.1 Explain the scope of the entity's Control and Risks Systems.

The Company has systems to control the risks to which it is exposed, these systems are based on the identification and assessment of factors that may affect somehow the compliance of goals by the Company.

The activity of the Company is exposed to various financial risks: market risk, credit risk and liquidity risk. The program's overall risk management of the Company focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects on its financial return. The Company uses derivatives to hedge certain risks.

E.2 Identify the bodies responsible for the preparation and implementation of the Risk Management System.

The management of such risk factors depends on the Financial Area of the Company, who identifies, evaluates and covers the financial risks according to the policies approved by the Board of Directors.The Board of Directors provides for guidelines of manage the labour risk, as well as some other specific areas as exchange rate risk, interest rate risk, cash-flow risk, use of derivates and non derivates and investment of the cash-flow excedents.

Also, the Audit Committee revises periodically the internal systems of control and risk management, so as to identify the main risks, and get them to be managed and disclaimed adequately

E.3 List the main risks that can affect the meeting of the business goals.

Draft limit 4.000 characters (3.976)

AUDIT VERSION ACCORDING TO FINANCIAL STATEMENTS

(3.324)

Market risk: 1. Exchange rate risk: The Company operates in the international scene and therefore it is exposed to this risk due to the foreign currency operations (i.e. USA Dollar and Sterling Pound). Risk arises from future commercial transactions, actives and receivables recognized and net investments in operations abroad. Currently the Company has no hedge against the foreign currency exchange fluctuations and it is exposed to fluctuations as a result of its business outside the euro environment, and as a result of the potential fluctuations in the currency denominations of its trade debt.

If the Company's turnover in other currencies grows, the Company's exposure to exchange rate fluctuations shall increase.

2. Price risk: The Company is not exposed to equity instrument price risk because of the investments held and classified on the balance sheet either as available for sale or carried at fair value through profit or loss. The Company is not exposed to commodity price risk.

3. Interest rate cash flow and fair value risk: Since the Company does not hold significant interest-bearing assets, the income and cash flows generated by operating activities are relatively protected from fluctuations in market interest rates.The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to the cash flow interest rate risk. Fixed interest rate borrowings expose the Company to fair value interest rate risks. The Company analyses its interest rate exposure in a dynamic manner. A simulation is performed of various scenarios, taking into account the refinancing, renewal of current positions, alternative financing and hedging. On the basis of these scenarios, the Company calculates the effect on results of a certain variation in the interest rate. For each simulation, the same variation in interest rates is used for all currencies. Scenarios are only simulated for liabilities representing the most significant interest-bearing positions.

Credit risk: Credit risk is managed by groups. The credit risk results from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions also wholesalers and retailers, including accounts receivable outstanding and committed transactions. The Company only does business with reputable banks and financial institutions.

Liquidity risk: Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, keeping funds available through sufficient committed credit facilities and having the ability to close out market positions.

Given the dynamic features of the underlying business, the Financial Area is aimed at keeping funding flexible by means of the availability of the credit lines agreed.

E.4 Identify if the entity counts on a tolerance degree to risk.

The Company count, in the exercise of their activity, and the preparation of budgets and business plans, on the existence of the risks identified, and attempts to manage the assets of the company with the due flexibility while applying very conservative criteria, so that if any potential risks that may occur, the Company would not be affected. Therefore, there is a certain level of tolerance for risk, although depending on the potential risk that might occur, the necessary mechanisms already planned to minimize any damage would be implemented.

E.5 Specify the actual risks faced during the year.

YES

In 2013 risks of credit and liquidity had to be faced.

Given the restricted access to financial markets and this impact on the Company's cash-flow, together with the tensions that were punctually communicated as Relevant Facts to the Market, and given the maturity to be faced by the Company during the last term in 2013 and the first term in 2014, the Company implemented during 2012 and 2013 relevant measures on expenses control and minoration, while trying to access alternative funding to financial entities, as i.e. By means of the Simple Debentures Issue, approved by the CNMV but that was not finally placed. In view of the results, the Company communicated the Mercantile courts of Madrid at 31st October 2013 the continuation of the negotiations with the main creditors, according to art. 5 Bis in the Insolvency Act. Anyhow, the economic situation and the Company's equity situation, led the Board of Directors, once it was deemed impossible to reach an agreement with some of the main creditor, to file for the voluntary arrangement with creditors, so on 26th February 2014, the Company submitted a declaration of voluntary arrangement with Creditors before the Mercantile Courts of Madrid. Currently, the Company is negotiating an Arrangement with its Creditors.

In broad terms, and regarding the ensemble of risks faced during the year as hereby described, the Board of Directors, acting according to its powers, has monitored and control such risks, implementing the due internal control and information systems. As a means to enhance this, the Company has counted on the monitoring and review functions of the Audit Committee, and on the management activities implemented by the head of the different affected areas.

E.6 Explain the response and monitoring regarding the main risks for the entity.

The Board of Directors provides for some guidelines in order to manage overall risk, and to manage particular risks such as exchange rate risk interest rate risk, liquidity risk, use of derivates and non derivates and investment of cash-flow superlative.

According to art. 5.1.vii of the Rules of the Board of Directors, the Board of Directors approves the policy of risk control and management, and also monitors periodically the internal systems of information and control.

Also, according to the art. 13.2.c of the Rules of the Board of Directors, the Audit Committee reviews periodically the internal systems of risk control and management, so as to identify the main risks and afford their disclosure and due management.

F INTERNAL SYSTEMS FOR THE RISK CONTROL AND MANAGEMENT REGARDING THE PROCESS OF FINANCIAL DATA ISSUE (SCIIF)

Describe your entity's mechanisms part of the systems of risk control and management regarding the process of financial data issue (SCIIF)

F.1 Entity's control environment

Report on the main features of at least:

F.1.1. Bodies and powers responsible for: (i) the creation and maintenance of an adequate and effective SCIIF; (ii) its implementation; y (iii) its monitoring.

The Board of Directors is the highest responsible for the creation and maintaining of an adequate and effective SCIIF, both directly and through the Audit Committee.

According to art. 13,2 of the Rules of the Board of Directors, the Audit Committee will exercise the following basic functions related to the systems of internal control and information:

- Monitoring the effectiveness of the internal control of the Company, the internal audit, if any, and the risk management systems, and discussing significant weaknesses in the internal control system detected in the course of the audit with the auditors or audit firms.
- Supervising the process of preparation and presentation of regulated financial information related to the Company and, if applicable, the group.
- Establishing the appropriate relationships with the auditors or audit firms to receive information regarding such questions as may compromise their independence, for review by the Committee, and any others related to the process of auditing accounts, and such other communications as may be contemplated in the legislation regarding auditing of accounts and audit standards. In any event, annually it must receive written confirmation from the auditors or audit firms of their independence as regards the entity or directly or indirectly related entities, and information on additional services of any kind provided to these entities by the aforesaid auditors or firms, or by the persons or entities related thereto in accordance with the provisions of Account Auditing Law 1/2011.
- Annually, prior to the issue of the audit report, issuing a report stating an opinion regarding the independence of the auditors or audit firms. This report must address the provision of any additional services referred to in the preceding section.
- Examining compliance with the Internal Code of Conduct, these Regulations and, in general, the company's governance rules, and making the proposals necessary for improvement.

Regarding the supervision of the process of preparation and presentation of regulated financial information related to the Company and, if applicable, the group, the Audit Head is aimed at watching over the internal systems of information and control, as well as at evaluating the internal control by the external auditor, and so:

- The Head is responsible for the conception, implementation and operation of the SCIIF. Such function is executed through the Financial Head, who is responsible for the elaboration of the financial statements and for establishing and maintaining the due primary control that operate over the transactions and other operations in the process of the data that are the source of such statements. Checks on the adequacy and consistency of the internal systems of control and revising the appointment and replacement of the staff responsible for it as well as on the elaboration process of the accountancy principles and policies.

- Knowing and checking on the integrity of the elaboration process and presentation of the financial data related to the Company and, when possible, the Group, by revising the degree of compliance of legal requirements, the due delimitation of the consolidation environment and the right application of the accountancy criteria.
- Revising periodically the effectiveness of the internal control of the Company, and the risk management systems, so as to have the main risks identified, managed and duly disclaimed, while also discussing significant weaknesses in the internal control system detected in the course of the audit with the auditors or audit firms.
- Watching over the independence and effectivity of the internal control functions and the legal compliance.

F.1.2. If there are, specifically regarding the process of financial information, the following elements:

a • Departments and/or mechanisms in charge of: (i) the conception and revision of the organization structure; (ii) the clear definition of guidelines regarding responsibility and authority, with a suitable distribution of tasks and functions; and (iii) the creation of procedures enough as to proceed to the right dissemination within the entity.

The conception and review of the organizational structure and the definition of the lines of responsibility and authority are the responsibility of the Board of Directors.

The implementation of such a structure is carried out by the Managing Director who will determine the appropriate distribution of tasks and functions.

The CEO will also ensure that there is an adequate segregation of duties and that the lines of authority and responsibility are perfectly defined.

The dissemination of the organizational structure to the whole entity is performed periodically, either through electronic means and through regular meetings with the staff of the entity.

b • Code of conduct, body of approval, degree of dissemination and information, principles and values included (pointing at specific mentions regarding the recording of operation and financial data process) body in charge of analysing lack of compliance and proposing correcting responses and penalties.

The Company has a Code of Conduct in the Securities Market approved by the Board of Directors at 9th June 2009, applicable to Directors, Executive Directors, external advisers and everyone providing services for the Company in relation to the market, and in particular, its financial area.

Said Code determines the behaviour criteria that its recipients shall follow in operations executed on these markets, with the aim of contributing to their transparency and to protecting investors. The principles that inspire the standards herein are those of impartiality, good faith, of general interests prevailing above one's own, care and diligence in making use information and, when acting on markets, rules of behaviour provided by the guidelines employees must observe in order to avoid unethical conduct..

The Management shall be in charge of watching over its compliance, analysing the lack of compliance and proposing correcting actions and penalties, except when any member of the Government Bodies are involved, in which case, the Board of Directors shall intervene,

c • Channel that affords reporting to the Audit Committee any financial and accounting irregularities, as well as breaches of the code of conduct and malpractice within the organization, reporting also on the confidentiality of such information.

The entity is considering the implementation of a channel to report information to the Audit Committee regarding the financial and accountancy breaches, and granting confidentiality.

d • Periodical training and updating programmes for the staff involved int he preparation and revision of the financial data, as well as on the valuation of the SCIIF, covering at least accountancy and audit rules, internal control and risk management.

The staff in the financial area in charge of the processing and revision of the financial data, must have the updated knowledge to be qualified in order to act according to their powers and functions. To this aim, the staff is selected paying special attention to their training in accountancy, audit and risk management, although if need be, additional training would be provided in such subject

The Financial Head, in coordination with the Head of Human Resources, determines the training plans, both internal and external, suitable in order to grant the ongoing training and competence of all the staff in the Area.

F.2 Risk evaluation in the process of financial data.
Report at least on:

F.2.1. The main features of the process of identification of risks, including fraud and error, regarding:

A • The actual procedure and its recording.

The procedure of risk identification in the financial data is done periodically by the Financial Head, but such procedure is still unrecorded.

The entity is considering the implementation of the recording procedures that shall afford the communication to the Audit Committee of such risk identification, including error and fraud, and establishing the different lines of action as a response to such identification, as well as the corresponding prevention, identification and regularization processes

This process is the fundamental base of any adequate internal control system, so it involves the participation of the area in charge of processing the financial data, and the Risk Control of the Company, the Financial Head, the Management, as supervisors and responsible for their review, and the Board of Directors as highest body responsible for the internal control of the financial data.

B • Whether the procedure fully covers the aims of financial information (existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights

and obligations), whether and how often it is updated.

The scope of the process of identification of risks in the financial information ranges from occurrence, valuation to presentation and breakdown.

The Financial Head identifies the possibility of errors in every risk source, by applying different measures of identification according to the source or origin.

Automatic identification means are used to alert phases of occurrence, recording and measurement using logical security measures on financial information systems, and automatic tabulated on the listed information.

Technological systems ensure a correct process of the activities associated with a large volume of information, transactions and computational complexity.

The breakdown of the financial information and presentation are also ensured by the procedures supported on technical applications in the preparation of financial statements, regarding both their logical security and accuracy of their calculations.

The process of identifying the risks of financial information will be updated through the procedure that the entity is considering to record with regards the identification and control of risks by establishing security policies in the financial reporting and creating a handbook of accounting policies, all to be approved by the Board of Directors, and later updated to the frequency decided.

C • The existence of a process of identifying the scope of consolidation, taking into account, among other things, the possible existence of complex corporate structures, or special purpose entities.

The scope of consolidation is determined by the criteria set in the International Standards of Financial Reporting and reviewed according to policy changes by the Finance Head of the Group.

D • Whether the procedure takes into account the effects of other types of risk (operational, technological, financial, legal, repetitional, environmental, etc..) to the extent that they affect the financial statements.

The entity shall consider, in addition to the controls on the risks identified in the E3 section of the Annual Corporate Governance Report, as part of the process of risk identification, the following risks:

- **Accounting risks:**These are risks affecting the reliability of financial reporting and the compliance with the applicable accounting standards
- **Operational risks:** They represent the chance of suffering losses due to inadequate technical and human processes, or due to their failure, and also due to the lack of resources, training, or necessary tools in the decision-making.
- **Technological risks:**They are due to failure in the systems or to errors in the processes relying on them. Apart form the errors in the software and systems,

there are other indirect technological risks that might have serious consequences such as telecommunication failures, external attacks or malaware.

- **Compliance risks:** Derived from internal activities that might cause a negative perception in our groups of interest (clients, Public Administration, or local environment).
- **Reputation risks:**They are produced as a result of external factors and might cause modifications in the internal control of the financial information.

E •Managing body monitoring the process.

The bodies responsible for overseeing the process of identifying risks of financial information are the Financial Department, the Management and the Audit Committee, and of course, the Board of Directors as ultimate responsible body for the financial information of the Company.

The Financial Head:

- supervises the recording, valuation, breakdown and presentation of the financial information and the right estimate of the forecasts.
- identifies and checks the right recording in the financial information of the risks deriving from the credit activity, market and treasury, as well as those that can be caused by operational risk, and
- supervises the right application of rules together with the Legal Head of the Company, avoiding errors of application, or lack of knowledge leading to errors in the financial information.

The Management Committee shall validate the right presentation and breakdown of the financial data as well as the estimates and projections.

The Audit Committee is in charge of controlling and monitoring the whole process of risk identification int he financial data.

The Board of Directors, as maximum government body in the Company, shall approve of the policies regarding the financial data security and the accountancy policy handbooks.

F.3 Control activities

Report, by pointing its main features, in case the Company has at least:

F.3.1. Procedures for reviewing and authorizing financial information and description of ICFR, to be published in the securities markets, stating who is responsible for it, as well as for the documentation describing the flow of activities and controls (including those relating to fraud risk) in the different types of transactions that may materially affect the financial statements, including the process accounting closure and the specific review of relevant estimates, valuations and projections.

According to art. 5 of the Rules of the Board of Directors, such Board as the highest decision-making authority of the Company is responsible for the preparation of the annual accounts, the management report and the proposal for allocation of the Company's profits, as well as the consolidated accounts and management report: The estimates on which the most relevant items of the financial statements or the different projections are based, are revised by the Management and the Board of Directors.

This review is considered a control activity, prior to the issuance of financial information, and is relevant to the extent that it ensures that the statements and projections used are aligned with those made by the managing staff and have been reviewed by them.

The Audit Committee is responsible for reviewing the financial information.

In order to ensure the accuracy of the information, individual controls are established in different areas on the transactions affecting the financial reporting.

All the financial information is captured through the transactions in the computer applications, whether departmental or at office level, so that the accuracy, authenticity, assessment and recording of information is assured.

Regarding the control procedures of transactions materially affect the financial statements, its objective is to ensure proper registration, valuation, presentation and disclosure thereof in the financial information.

As to the control procedures on the transactions materially affecting the financial statements, their aim is to ensure their adequate recording, valuation, presentation and breakdown in the financial report.

There are two type of controls:

- Those implemented on the technological platforms supporting the systems of financial information.
- Those implemented from the Financial Area in order to ensure the accuracy and integrity of the transactions.

The Financial Head is responsible for revising the control procedures, by paying special attentions to a suitable segregation of functions.

F.3.2. Policies and procedures of internal control over information systems (including, access security, change control, operation thereof, business continuity and segregation of duties) supporting the relevant processes of the organization in relation to the process and publishing of financial information.

The entity has established a system of internal control, which are expected to be recorded in the relevant documents for Security Policy and Control over financial reporting, based on a set of guidelines, obligations, security measures and technological matters relating to financial reporting, authorization levels in accounting applications, and specific controls to detect possible incidents.

The general principles of information security are focused on maintaining and ensuring the security of the information processed, so that the service, while ensuring optimal levels of confidentiality, integrity and continuity, also ensure business continuity, harm minimization caused by a disaster, a quick response to any incidents, and the maintenance of a level of quality in the service activities and critical processes.

The Finance Department is responsible for monitoring the policy and its updates.

The HR Management and Technology Head will be responsible for the implementation and monitoring of this policy, that shall be submitted to the Board of Directors approval.

F.3.3. Policies and internal control procedures for monitoring outsourced activities, as well as the appraisal, calculation or valuation commissioned from independent experts, which may materially affect the financial statements.

The entity does not have a policy of outsourcing related to financial information services.

If services related to financial information have to be outsourced, not only economic criteria are taken into consideration but also experience, quality and prestige of the various providers of these services are key in the decision.

Since the outsourced services are audit and consulting (including tax consultancy), such services are appointed by the Board of Directors, given their cyclical nature the outsourcing related financial information will be authorized by the Financial Head.

F.4 Information and communication
Report, by pointing at the main features, if there is any such:

F.4.1. Specific function in charge of defining, updating the accountancy policies (area of accountancy policies) and solving the questions or conflicts raised from their interpretation, while keeping a fluent communication with those people responsible for the operations in the organization, as well as a handbook of accountancy policies to be updated and disseminated to all the operating units in the Company.

The Financial Area is responsible for the definition and updating of the accountancy policies, and for their communication to the staff related to the process of financial data, and the Board of Directors is the body responsible for approving such policies.

Such policies are updated to legal changes whenever these happen, and they are reviewed at least once a year.

The Financial Area is responsible for solving the questions and conflicts of interpretation regarding the accountancy policies.

F.4.2. Mechanisms for gathering and preparing the financial information in standard formats, to be applied and used by all units of the entity or the group, which support the main financial statements and notes, as well as information concerning ICFR.

Accountancy functions are focused on the application of General Accountancy, that is only controlled and managed by the Financial Area, and which integrates the accountancy of the whole entity.

The system has the following features:

- multi-currency
- grants access to information depending on the authorised levels (user-transaction and operating centre-account).
- Affords the recording and validation of statements in real time.
- Different type of accounts are identified within the system.

- Affords interfaces with operating application that supply movements reflecting the accounting event produced.

- Authorised users can maintain the fixed parameters of the system through the screen.

- Information show different levels of aggregation.

F.5. Monitoring of the operation system

Report, pointing out the main features, of at least:

F.5.1. The ICFR monitoring activities conducted by the audit committee and indicate whether the entity has an internal audit function supporting the committee in its monitoring of the internal control system, including ICFR.The scope of the assessment of ICFR shall be reported as well as if the entity has an action plan detailing any corrective measures, and whether it has considered its impact on financial reporting.

The Rules of the Board of Directors establish the powers of the Audit Committee in relation to information systems and internal control, testing effectiveness, adequacy and integrity of internal control systems, as well as understanding and monitoring the integrity and the process and presentation of financial information, monitoring the systems of internal control periodically and ensuring the independence and monitoring the effectiveness of the internal audit functions.

The Financial Head depends from the Director General and in functional terms depends from the Audit Committee, when supporting audit and managing the daily control and supervision of the system of internal control.

F.5.2. If you have a discussion procedure by which the auditor (in accordance with the provisions of the Technical Standards on Auditing), the internal audit function and other experts can report to senior management and the Audit Committee or Company management on significant internal control weaknesses identified during the review process of the annual accounts or other. Also report on whether you have a plan of action to correct or mitigate the weaknesses observed.

The role of internal control performed by the Finance Area, within the works included in the Annual Plan of activity, reports to the Management (through the Management Committee) and the Audit Committee (in sessions held periodically) on the results obtained in the evaluation of internal control of financial.

On the other hand, the Head also communicates the significant internal control weaknesses that may be identified in other processes made during the year.

In these cases, action plans are developed and monitored in order to mitigate the aforementioned deficiencies observed,

Regarding the Auditor, and according to the procedure established he is to attend at meetings of the Audit Committee of the company, in order to report on the result of the work done and, where appropriate, to disclaim the details of the weaknesses of internal control observed and the action plans implemented to remedy these weaknesses.

F.6 Other relevant data

According to the Company, there is no other relevant data that has not been communicated to the market or included in this paper.

F.7 Report of the external audit

Report on:

F.7.1. Whether the SCIIF data sent to the markets has been subject to revision by the external auditor, in which case the Company should include the corresponding report as Annex. Otherwise, the reasons should be disclaimed.

The entity has not submitted its system of internal controls on the issue of financial data to the review of an external expert, given that such controls are made immediately without being subject to specific procedures of documentation and approval,and since, to this date, there are no homogenous processes which will be implemented once the final procedures are documented and approved. However, the auditors of the Group review, according to the applicable audit regulations is Spain, the internal control procedures as part of their annual review.

Notwithstanding the aforementioned, this paper is sent to the external auditor as part of the Annual Corporate Governance Report, which is part of the management report, with the aim of adding it to the audit on the corresponding Annual Financial Statements for 2013.

G. OTHER RELEVANT DATA

If there is a relevant aspect relating corporate governance in the company or companies the group that is not recorded in the other sections of this report, but it is deemed necessary to include hereby in order to collect more complete and reasoned information on the structure and governance practices in the company or its group, briefly explain.

This section also may include any other information, clarification or detail related to previous sections of the report to the extent that they are relevant and not repetitive.

Specifically, indicate whether the entity is it subject to corporate governance rules other than the Spanish legislation and, where applicable, include the information required and that is different from that specified in this report.

The entity may also indicate whether it has voluntarily adhered to other ethical principles or codes of good practice, be them international, sectorial or other. Where appropriate, the entity shall identify the relevant code and the date of adhesion.

As a consequence of data under C.1.2. y C.2.1. y C.2.2., we confirm that the information included in such item is in force at 31st December 2013, which is complemented with the following information:

Angel-Martin Ortiz Abogados, S.L. was appointed Director by co-optation representing the shareholder Mr. Miguel Valladares by decision of the Board of Directors at the meeting held at 19th December 2012, and ratified and appointed by resolution of the General Shareholders Meeting held at 27th June 2013.

At 10th October 2013, Mr. Juan José Güemes communicates the Board of Directors his resignation as member of the Audit Committee and the Board of Directors of the Company, creating therefore a vacancy in both positions.

At 10th December 2013, Mr. Alberto Delgado Gavela communicates the Board of Directors his resignation as member of the Audit Committee of the Company, creating therefore a vacant in such Committee.

To this aim, the Company is doing everything necessary in order to provide for such vacancies in the Audit Committee.

After year-end, at 11th February 2014, the Extraordinary General Shareholders Meeting approves by majority the resignations of Mr.. Alberto Delgado Gavela and Mr. Angel-Martin Ortiz Abogados, S.L. as members of the Board of Administration, therefore two vacancies were created in the Board of Directors.

All these changes were communicated to the CNMV and MAB by means of the corresponding Relevant Facts the same day the decision was learnt by the Company.

Also, it has to be detailed that the information hereby provided under C.1.7., wherein it is explained that there is no maximum limitation for the mandate in the Board of Directors, according to art. 17 of the Company's Statutes and art. 20 of the Rules of the Board of Directors, Directors shall hold their positions for five years, and they can be re-elected. In its turn art. 21,1 of the Rules of the Board of Directors of the Company, independent directors shall cease in their positions after having held their position for an ininterrupter period of 12 years, from the time the shares of the Company are traded on the MAB.

And last, it should be noted that as to the information provided for under C.1.6. there are no senior managers contracts in the Company, according to the interpretation of the CNMV, and in order to obtain a greater transparency, just like previous years, all the information is hereby included regarding those directors of the Company who have been dependant on the Managing Director at some time in 2013, notwithstanding the fact that the appointment of a Director General has diminished considerably the first level reports, which results in the decrease of the number of people dependant directly form the Managing Director.

Last, the entity has not adhered other ethical or good practices codes, be they international,, national, sectorial or other.

This annual corporate governance report was approved by the board or governing body of the entity, in its meeting held on 31st MARCH 2014. Indicate directors or board members who voted against or abstained on connection with the adoption of this report.

GARRIDO
AUDITORES

ZINKIA ENTERTAINMENT, S.A.

Audit Report, Financial Statements and Directors' Report at December 31, 2013

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish-language version prevails.

GARRIDO
AUDITORES

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the shareholders of Company Zinkia Entertainment, S.A.:

1. We have audited the financial statements of Zinkia Entertainment, S.A., comprising the balance sheet at December 31, 2013, the income statement, the statement of changes in equity, the cash flow statement and related notes to the financial statements for the year then ended. The Directors are responsible for the preparation of Company's financial statements in accordance with the regulatory financial reporting framework applicable to the company (which is identified in Note 2 of the accompanying notes to the financial statements) and, in particular, with the accounting principles and rules contained therein. Our responsibility is to express an opinion on the financial statements taken as a whole, based on our audit work conducted in accordance with the audit regulations in force in Spain, which requires the examination, by means of selective tests, of the evidence supporting the financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. In our opinion, the accompanying financial statements for 2013 present fairly, in all material respects, the equity and financial position of Zinkia Entertainment, S.A. at December 31, 2013 and the results of its operations and cash flows for the year then ended, in conformity with the applicable regulatory financial reporting framework and, in particular, with the accounting principles and rules contained therein.

3. Without qualifying our audit report, we draw attention to what is indicated in note 2.i of the accompanying notes to the financial statements, where is indicated that on February 26th 2014, the company decided to seek a declaration of voluntary arrangement process with creditors. This fact, along with the rest of factors indicated in the same note is indicative of a significant uncertainty about the company´s ability to continue as a going concern.

4. Without affecting our audit opinion, we draw attention to what is indicated in note 7 of the accompanying notes to the financial statements, where is indicated that the company has a Long-Term Account Receivable with Carears Diapers, LLC amounting to 3,897,977 euro corresponding to a minimum guaranteed under a license agreement with this licensee. This agreement was signed on June, 24th 2012, being settled the deadline for the first collection in June, 23rd 2013. However, because of the delay in the commercialization of the products, on 18 November 2013 both parts agreed to amend the original Agreement. The first deadline was changed to June, 23rd 2015. Thus, the recovery of the Long-Term Account Receivable will depend on the successful commercialization of the products.

5. The accompanying directors' report for 2013 contains the explanations that the company's directors consider appropriate regarding Zinkia Entertainment, S.A. situation, the evolution of its business and other matters, but it is not an integral part of the financial statements. We have checked that the accounting information contained in the directors' report is consistent with that contained in the financial statements for 2013. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the company's accounting records.

Garrido Auditores, S.L.
(Registered in R.O.A.C. under no. S1838)

David Jiménez Matías
April 1, 2014

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ZINKIA ENTERTAINMENT, S.A.

ANNUAL FINANCIAL STATEMENTS AND AUDIT REPORT 2013

TABLE OF CONTENTS OF THE ANNUAL FINANCIAL STATEMENTS OF ZINKIA ENTERTAINMENT, S.A.

ZINKIA ENTERTAINMENT, S.A.
BALANCE SHEET AT DECEMBER 31st 2013 (In EUR)

ASSETS	Note	2013	2012
A) NON-CURRENT ASSETS		19,129,868	18,345,852
I. Intangible fixed assets	5	8,511,271	8,832,662
3. Patents, licenses, trademarks and similar		3,355,989	2,639,443
5. Computer software		63,090	50,837
6. Other intangible assets			
Research		5,092,193	6,104,609
Advance for intangible assets			37,773
II. Property, plant and equipment	6	54,716	76,258
2. Plant and other PPE		54,716	76,258
IV. Non-current investments in group companies and associates	7, 8	992,164	1,003,697
1. Equity instruments		992,164	1,003,697
V. Non-current financial investments	7, 11	128,005	28,183
1. Equity instruments		26,383	28,183
4. Derivatives		3	
5. Other financial assets		101,619	-
VI. Tax credits	21	5,319,202	4,425,759
VII. Non-current trade receivables	7, 11	4,124,510	3,979,292
1. From clients		4,124,510	3,979,292
B) CURRENT ASSETS		3,940,960	7,133,764
III. Trade and other accounts receivable	7, 11	1,524,007	3,977,441
1. From clients		1,369,027	3,415,252
2. Clients, group companies and associates		112,021	461,236
3. Sundry receivables		-	
4. Employees		21	-
5. Current tax assets		2	731
6. Other tax credits		42,935	100,223
IV. Current investments in group companies and associates	7, 11, 26	476,998	445,660
2. Loans to companies		476,666	445,244
5. Other financial assets		332	416
V. Current financial investments	7, 11	1,012,661	150,459
1. Equity instruments		164	181
3. Debt securities		-	-
5. Other financial assets		1,012,497	150,278
VI. Prepaid expenses		23,716	27,655
VII. Cash and cash equivalents	14	903,578	2,532,549
1. Cash		903,439	2,530,618
2. Cash equivalents		139	1,931
TOTAL ASSETS		23,070,829	25,479,616

Notes 1-32 in the joint memoir are an integral part of the Balance Sheet at December 31st 2013.

ZINKIA ENTERTAINMENT, S.A.
BALANCE SHEET AT DECEMBER 31st 2013 (In EUR)

EQUITY AND LIABILITIES	Note	2013	2012
A) NET EQUITY		8,979,829	10,145,677
A-1) SHAREHOLDER'S EQUITY		8,829,261	10,018,702
I. Capital	15	2,445,677	2,445,677
1. Registered capital		2,445,677	2,445,677
II. Share premium	15	9,570,913	9,570,913
III. Reserves	16	918,423	994,353
1. Legal and statutory		330,475	237,262
2. Other reserves		587,948	757,091
IV. Treasury stock	17	(403,841)	(403,841)
V. Profit/(loss) carryforwards		(2,681,613)	(3,520,531)
2. Tax loss carryforwards		(2,681,613)	(3,520,531)
VII. Profit/(loss) for the year	18	(1,020,297)	932,131
A-2) ADJUSTMENTS DUE TO VALUE CHANGES	12	(3,947)	(4,003)
II. Hedgings transactions		(3,947)	(4,003)
A-3) GRANTS, DONATIONS AND BEQUESTS RECEIVED	20	154,515	130,978
B) NON-CURRENT LIABILITIES		6,871,332	6,944,294
II. Non-current payables	7, 13	6,807,339	6,827,306
1. Debentures and other marketable securities		2,238,000	-
2. Bank borrowings		555,917	759,295
4. Derivatives		-	53
5. Other financial liabilities		4,013,422	6,067,958
III. Non-current payables with subsidiaries and associates compani	21		61,401
IV. Deferred tax liabilities		63,994	55,588
C) CURRENT LIABILITIES	7, 13	7,219,668	8,389,645
II. Current provisions		100,000	
III. Current payables		4,253,867	4,147,761
1. Debentures and other marketable securities		33,049	2,027,004
2. Bank borrowings		1,296,397	1,405,032
5. Other financial liabilities		2,924,421	715,725
VI. Current accruals and deferred income	7, 13	28,755	
V. Trade an other payables		2,527,583	2,993,628
3. Sundry payables		2,102,376	2,204,575
4. Wages and salaries pending of payment		20,114	368,248
6. Other tax payables		405,093	420,805
7. Advanced payment from clients			
VI. Current accruals and deferred income		309,463	1,248,256
TOTAL LIABILITIES AND EQUITY		23,070,829	25,479,616

Notes 1-32 in the joint memoir are an integral part of the Balance Sheet at December 31st, 2013.

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ZINKIA ENTERTAINMENT, S.A.

INCOME STATEMENT FOR THE ANNUAL PERIOD ENDED AT DECEMBER 31st 2013 (In EUR)

	Note	2013	2012
1. Revenue	22.b	5,290,982	8,239,438
3. Own work capitalised	5	1,209,088	1,335,634
4. Raw materials and consumables	22.c	(162,279)	(28,132)
5. Other operating revenues	22.f		1,470
6. Staff expenses	22.e	(2,084,239)	(3,045,718)
7. Other operating expenses	22.d	(2,602,706)	(2,702,036)
8. Fixed assets amortisation	5, 6	(1,129,183)	(1,592,435)
9. Allocation of grants and other non-financial assets	20	16,342	12,554
11. Impairment and profit/(loss) on fixes assets disposals			
a) Impairment and losses	5	(435,843)	-
b) Profit/(loss) on disposals and other			2,145
12. Other results		(102,990)	(112,972)
A) OPERATING PROFIT/(LOSS)		(828)	2,109,948
13. Financial Income		31,902	33,021
14. Financial expense		(1,401,813)	(969,119)
15. Change in fair value of financial instruments		-	-
16. Exchange differences	22.a	(423,580)	(16,030)
17. Impairment losses on disposal of financial instruments		(13,333)	731
B) FINANCIAL PROFIT/(LOSS)		(1,806,824)	(951,397)
C) PROFIT/(LOSS) BEFORE INCOME TAX		(1,807,652)	1,158,550
18. Corporate Income tax	23	787,355	(226,419)
D) PROFIT/(LOSS) FOR THE YEAR		(1,020,297)	932,131

Notes 1-32 in the joint memoir are an integral part of the Income Statement corresponding to 2013.

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ZINKIA ENTERTAINMENT, S.A.

STATEMENT OF CHANGE IN EQUITY AT YEAR END DECEMBER 31st 2013 (In EUR)

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSE (In EUR)

	2013	2012
A) Profit/(loss) for the year	(1,020,297)	932,131

Income and expense recognised directly in equity

I. Change in value of financial assets	-	-
1. Available-for-sale financial assets	-	-
2. Other income/expense	-	-
II. Cash-flow hedges	(96)	(4,094)
III. Grants, donations and bequests received	64,086	46,469
IV. Arising from actuarial gains and losses and other adjustments	-	-
V. Tax effect	(19,226)	(11,617)

B) Total income and expense recognised directly in equity	44,763	30,758

Transfers to income statements

VI. Change in value of financial assets	(9,883)	-
1. Available-for-sale financial assets	-	-
2. Other income/expense	(9,883)	-
VII. Cash-flow hedges	151	6,090
VIII. Grants, donations and bequests received	(16,342)	(12,554)
IX. Tax effect	4,903	3,139

C) Total transfers to income statements	(21,171)	(3,325)
TOTAL RECOGNISED INCOME AND EXPENSE (A + B + C)	(996,706)	959,564

Notes 1-32 in the joint memoir are an integral part of the Recognised Income and Expenses in 2013.

B) STATEMENT OF TOTAL CHANGES IN EQUITY (In EUR)

	NOTES	REGISTERED CAPITAL	SHARE PREMIUM	RESERVES	TREASURY STOCK	PRIOR-YEAR RESULTS	PROFIT/(LOSS) FOR THE YEAR	VALUE ADJUSTMENTS	GRANTS AND DONATIONS	TOTAL
D. 2012, ADJUSTED STARTING BALANCE		2,445,677	9,570,913	1,151,523	(950,560)	(3,389,611)	(130,920)	(6,000)	105,542	8,796,563
I. Total recognised income and expense	18	-	-	-	-	-	932,131	1,996	25,436	959,563
II. Transactions with shareholders										-
5. Trading treasury stock	16, 17			(157,170)	546,719					389,549
III. Other movements in equity	18	-	-	-	-	(130,920)	130,920	-	-	-
E. 2012, ENDING BALANCE		2,445,677	9,570,913	994,353	(403,841)	(3,520,531)	932,131	(4,003)	130,978	10,145,676
I. Adjustments due to criteria changes										-
II. Adjustments due to errors										-
D. 2013, ADJUSTED STARTING BALANCE		2,445,677	9,570,913	994,353	(403,841)	(3,520,531)	932,131	(4,003)	130,978	10,145,676
I. Total recognised income and expense	18	-	-	-	-	-	(1,020,297)	55	23,537	(996,706)
II. Transactions with shareholders										-
5. Trading treasury stock	16, 17	-	-	(185,793)		-	-	-	-	(185,793)
III. Other movements in equity	18	-	-	109,863	-	838,918	(932,131)	-	-	16,649
E. 2013, ENDING BALANCE		2,445,677	9,570,913	918,423	(403,841)	(2,681,613)	(1,020,297)	(3,947)	154,515	8,979,826

Notes 1-32 in the joint memoir are an integral part of the Statement of Total Changes in Equity corresponding to 2013.

ZINKIA ENTERTAINMENT, S.A.

CASH FLOW STATEMENT AT YEAR END DECEMBER 31st 2013 (In EUR)

A) CASH FLOWS FROM OPERATIONS	12/31/2013	12/31/2012
1. Profit before taxes	(1,807,652)	1,158,550
2. Adjustments to profit (loss)	3,458,498	2,642,105
a) Fixed asset depreciation	1,129,183	1,592,435
b) Value corrections	449,176	(731)
c) Provisions variation	100,000	-
d) Profit(loss) from fixed asset disposals		(2,145)
e) Financial income	(31,902)	(33,021)
f) Financial expenses	1,401,813	969,119
g) Exchange differences	423,580	16,030
h) Allocation of grants	(16,342)	(12,554)
i) Other incomes and expenses	2,990	112,972
3. Change in working capital	266,199	(2,905,434)
b) Other current assets and liabilities	2,452,705	(2,429,424)
c) Creditors and other payables	3,939	3,355
c) Creditors and other payables	(466,045)	1,472,562
d) Other current liabilities	(938,792)	1,248,256
d) Other non-current assets and liabilities	(785,607)	(3,200,183)
4.- Other cash flows from operations	(897,306)	(718,205)
a) Interest paid	(702,799)	(539,605)
b) Dividends received	-	-
c) Collections (payments) for corporate income tax	(91,947)	(66,612)
d) Other payments (collections)	(102,990)	(112,972)
e) Collections for interests	430	986
5.- Cash flows from operations (1+2+3+4)	1,019,740	177,016
B) CASH FLOWS FROM INVESTMENTS		
6. Paid on investments (-)	(2,209,482)	(1,702,558)
a) Group companies and associates	(139)	(68)
b) Intangible assets	(1,219,484)	(1,410,589)
c) Property, plant and equipment	(2,610)	(7,631)
e) Other financial assets	(987,249)	(284,270)
7. Amounts collected from divestments (+)	23,427	371,683
a) Group companies and associates		27,107
e) Other financial assets	23,427	344,576
8. Cash flows from investments (7-6)	(2,186,054)	(1,330,874)
C) CASH FLOWS FROM FINANCING ACTIVITIES		
9. Collections and payments on equity instruments	(185,793)	389,549
c) Acquisition of equity instruments	(404,187)	(39,369)
d) Disposal of equity instruments	218,395	428,918
10. Collections and payments on financial liability instruments	(266,992)	3,257,598
a) Issues	1,268,182	4,815,728
1. Debentures and other marketable securities		-
2. Bank borrowings		1,137,081
3. Other payables	1,268,182	3,678,647
b) Retur and amortisation of	(1,535,174)	(1,558,130)
1. Bank borrowings	(357,572)	(997,317)
2. Other payables	(1,177,602)	(560,813)
11. Dividend payments and returns on other equity instruments		-
12. Cash flows from financing (9+10+11)	(452,785)	3,647,147
D) Effect of exchange rate fluctuations	(9,871)	13,442
E) NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)	(1,628,970)	2,506,731
Cash and cash equivalents at January, 1	2,532,549	25,819
Cash and cash equivalents at December, 31	903,578	2,532,549

Notes 1-32 in the joint memoir are an integral part of the Cash Flow Statement in 2013.

ZINKIA ENTERTAINMENT, S.A.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS IN 2013
(In EUR)

1. General Information

The Company was founded as a limited liability company under the name of Junk & Beliavsky, S.L. on April, 27th 2000. On December, 27th 2001, the name was changed to Zinkia Sitement, S.L. and the company's registered offices were established at Calle Infantas, 27 in Madrid.

On June, 11th 2002, the name of the company was once again changed to ZINKIA ENTERTAINMENT, S.L.

On July, 20th 2007, the General Meeting of Shareholders agreed to transform the company into a public limited company, which was formalised in the public deed executed before the notary public of Madrid, Miguel Mestanza Iturmendi, on October, 24th 2007.

The corporate purposes of the Company, which are governed by the terms of the Capital Companies Act, are as follows:

a) Business activities related to the production, promotion, development, management, exhibition and commercialisation of cinematographic, audiovisual and musical works as well as the activities related to publishing of musical works.

b) Rendering services related to the development of interactive software, hardware and consulting in the field of telecommunications.

c) Buying and selling shares and debentures which may or may not traded in domestic or foreign stock markets, and other negotiable securities and real estate. By law, the Company's business activities exclude those activities reserved for stockbrokers, collective investment institutions and property leasing.

d) Managing and administering all kinds of companies including industrial, commercial and service companies and holding interests in existing or newly-created companies, either by participating in their governing bodies or by holding shares or financial interests in them. These activities may also be performed on behalf of third parties.

e) Providing the companies in which it holds interests with advisory, technical assistance and similar services in relation to their administration, financial structure or their productive or commercial processes.

The Company's activities are focused primarily on those described in items a and b.

According to article 6.1 of the Royal Decree 1159/2010 of September 17th, which approves of the Rules for the Preparation of Consolidated Financial Statements, the Company is the parent of a group of companies (Note 8), and as such, and since the Company has issued securities which are traded on a regulated market in a Member State of the European Union, the Company is presenting its yearly consolidated statement under EU-IFRS financial statements standards. Such statements were prepared by the Directors at a meeting of its Board of Directors on March 31st 2014.

2. Basis of presentation

a) Regulatory framework of financial information

These annual financial statements have been prepared by the Directors in accordance with regulatory framework of financial information applicable to the Company:

- Spanish Commercial Code and the rest of mercantile laws.
- General Chart of Accounts approved by the Royal Decree 1514/2007 and its Sector adaptations.
- Accounting mandatory rules approved by the ICAC (Spanish Accounting and Audit Institute) developing the General Chart of Accounts and related rules.
- The rest of the applicable Spanish accounting regulations.

b) True and fair view

These financial statements have been prepared on the basis of the Company's accounting records and they are presented in accordance with regulatory framework of financial information and related accounting rules so as to present fairly the Company's equity, financial situation and results and accurately cash flow in the cash flow statement, during this period._These annual financial statements, which were prepared by the Directors of the Company shall be subject to approval by the Annual Shareholder's General Meeting, where they are expected to be approved without further modification. The financial statements for 2012 were approved by the General Meeting of Shareholders held on June 27th 2013.

c) Accounting principles

The financial statements were prepared by applying generally-accepted accounting principles. No accounting principles with significant effects on the financial statements were omitted.

d) Critical measurement issues and estimates of uncertainty

The preparation of the financial statements requires the use by the Company of certain estimates and judgements in relation to the future that are assessed constantly and are based on historical experience and other factors, including expectations of future events considered reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom match the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

d.1) Fair value of derivatives or other financial instruments

The fair value of financial instruments that are not traded on an active market is calculated using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Company has carried out the analysis using the discounted cash flow method of various held-for-sale financial assets that are not traded on active markets.

d.2) Useful lives property, plant and equipment

The Company management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. These estimates are based on the estimated life cycles of the products in the high technology segment. This could change considerably as a consequence of technical innovations and the actions of competitors as a reaction to the sector hard cycles. The Management will increase the depreciation charge where useful lives are shorter than previously estimated, and write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Although these estimates were made based on the best information available at year-end 2013, it is possible that events may occur in the future, requiring therefore adjustments (upwards or downwards) in coming years, to be held, if applicable prospectively.

e) Comparability of information

The Company has included the figures from the previous year Financial Statements as there is no reason why the figures from both years would not be compared.

f) Grouping of items

For clarity purposes, the items presented in the balance sheet, income statement, statement of changes in equity and cash flow statement are grouped together and, where necessary, a breakdown is included in the relevant notes to the financial statements.

g) Changes in accounting policies

During this interim period, the Company has not applied changes in accounting policies following its usual accounting policy.

h) Correction of errors

There were no corrections of prior period errors.

i) The going concern principle-Negative Working Capital

The balance sheet shows a negative Working Capital of EUR 3,278,708 at December 31st, 2013 (EUR 1,255,881 at December 31st, 2012), mainly due to the attention and maturity of the financial debt of the Company vis-à-vis a private entity. Meanwhile the profit and loss account shows a negative result in 2013 of 1,020,297 euros. The following summarizes additional information:

i.1) Position of the Company and negotiation processes

As noted in the Annual Accounts of the previous year, the Company, despite its business growth, contemplated difficulties in order to meet part of its payment obligations expected in 2013. Therefore, during this year, and among the different alternatives considered by the Company, a bond issue was initially conceived as a viable means to obtain additional funding, and thus, on April 18th 2013, Zinkia began before the CNMV the process of enrolment in the official records of the relevant Registration Document of the Company, following Article 92 of the Law 24/1988 on the Securities Market. The Registration Document was approved nearly three months after its submission, on July 4th 2013, date of its official registration by Decision of the CNMV.

Following to the approval of the Registration Document, Zinkia prepared the corresponding Admission Paper in order to launch a Bond Issue aimed at Institutional Investors, which supposedly was unlimited as to the amount of bonds to be issued, and for which Law did not set any standard minimum face value for each Bond but a minimum subscription of €100,000 per investor.

For this purpose Zinkia together with its advisers designed and prepared the transaction (with the corresponding Securities Note concerning the Admission of Zinkia's Simple Bond Issue) considering an Issue of Bonds among investors with a minimum subscription of €100,000 per investor and therefore not considering the public offer of Bonds for the purposes provided in art. 38 of Royal Decree 1310/2005, of November 4th, partially developing Law 24/ 1988 of 28th July, on the Securities Market, on the admission of securities to trade in official secondary markets, public offers for sale or subscription and the paper required for that purpose, and with a unit nominal value of € 1,000 per bond. This operation was not authorized by the CNMV under the conditions proposed by Zinkia, for the Commission finally required the unit value of each Bond to be set at the amount of € 25,000 which, in the opinion of the Directors of the Company, resulted in no titles being placed.

After these events, Zinkia considered to aim the bond issue at the retail public with the issue limitations established by law, and so proceeded to present on September 6th 2013, in accordance with Article 24 and following of the Real Decree 1310/2005, of 4th November, partially developing Law 24/1988 of 28th July, on the Securities Market, on the admission of securities to trade in official secondary markets, public offers for sale or subscription and the paper required for that purpose, a first draft of the Securities Note that was finally approved by the CNMV on October 7th 2013.

Given this lengthy process, and the changing of approaches, the Company does not consider the securities placed are enough and decides to renounce to the Issue.

Given the manifest impossibility to meet the next milestones in the pay back of the financial debt, such as was the amortization to maturity of the debenture bond issue "Simple Debentures Zinkia 1st Issue", and the final redemption or repayment of the loan made by a private Foundation, both reaching up to about 5,000,000 € and which were maturing in November 2013 and February 2014, respectively.

Given this situation, and in order to protect both the assets and interests of Zinkia, as well as to enable the Company to continue with business as usual under the umbrella of legal protection, Zinkia requested, on October 31st 2013, the legal procedure under art. 5 bis of the Insolvency Act in order to renegotiate and continue negotiations with the different creditors of the Company.

From the date of the application for the procedure, the Company had a three month period (that is, until January 31st 2014) to achieve a refinancing agreement with its main creditors in order to (once process 5 Bis is ended) continue with its business and activity. Throughout this process, there have been endless numbers of procedures, negotiations and agreements summarized as follows:

- Renegotiation of debt with the bondholders, at the General Meeting of Bondholders of the "Zinkia's Simple Debentures 1st Issue" of 2010, which took place on December 9th 2013 on second call, where they agreed, among other things, on the modification of the Final Terms of the issue (such as the market was informed by communication of the corresponding Relevant Facts in both the official pages of MAB and CNMV, as well as on the official website of the Company (www . zinkia.com), and more specifically:

Modification of the Final Terms for the "Zinkia's Simple Debentures 1st Issue" in the following terms:

- Change of the writing-off date to maturity, originally scheduled for the third anniversary from the Date of Issue, subscription and payment, that is to say November 12th 2013, and setting it on the fifth anniversary from the Date of issue, subscription and payment, that is to November 12th 2015.

- Inclusion of the possibility of early writing-off by the Issuer in the first year, that is, on November 12th 2014, who will therefore proceed to pay the corresponding coupon until that date.
- Modification of the fixed rate annually payable in the coupons to be paid in 2014 and 2015. The fixed rate changed from 9.75% to 11%.

Since the above amendments were approved, the full amount of the coupon corresponding to the 2013 rates (9.75%) was paid. This coupon was paid to the holders of the bonds of the referred issue in December 2013.

- The company INTEGRA CAPITAL PARTNERS, SA ("Integra") was hired in order to implement a Viability Plan including all the revenue estimates derived from the activity in the coming years, as well as all the payment obligations intended by the Company and, what is more important, that could actually be proposed by the Company, in order to have an impartial third party ensure that, if the forecasts of the Company in their most conservative scenario, and after the due sensitivity analysis, were fullfilled (and indeed, all scenarios were well behind the projections of real business of the Company, which are de facto much more optimistic), the Company could face the commitments reached under the so called 5Bis refunding procedure.

The Viability Plan is performed by means of a mathematical, computer program used to calculate, from some given premises and preset scenarios, the Income Statement, Balance Sheet and Statement of Treasury corresponding to the projected months and years and, according to those results, to estimate the conditions and payment schedules that can be offered to different creditors. All in order to confirm that the Company may afford all the payments and obligations offered to each creditor and therefore confirming that the company is viable in financial and economic terms, and that the Company has sufficient level of solvency based on the actual business assets, as well as sufficient structure as to afford the realistic and effective completion of its payment obligations to creditors within the proposed timeframe.

As a result of the Viability Plan, the Company approved the offer of certain payment terms that were negotiated with the main creditor groups.

- Zinkia held some interviews with its main trade creditors, as well as with all the financial institutions involved, in order to evaluate their bargain power and their will to reach the refinancing agreements that could lead to the end of procedure 5 Bis and the signing of the relevant refinancing agreements. Finally, after talks and interviews held by Zinkia individually with each of the financial institutions, Integra was charged also with the coordination of the negotiation and signing of the refinancing agreements with all entities, so as to reach the agreement of the whole banking "pool" under the same conditions.

Although the Company was successful in reaching a refinancing deal with the bondholders, with most of the commercial creditors, and although negotiations had been also successful with the different committees of banks which had already approved the refinancing operations, on the February 26th 2014 the Board of Directors of Zinkia decided to seek a declaration of voluntary arrangement with creditors due to the refusal of renegotiation by private lending institution regarding an amount of EUR 2,500,000 (Note 19).

i.2) Overdue balances at the year end and actions taken.

The due, unpaid balances with financial institutions at December 31st 2013 amounts approximately to 818,054 euros. As it has been mentioned in the previous item, in October and given the lack of liquidity, in order to protect the assets of the company, while looking for favourable conditions of bargain, on 31st October the Company requested before the Courts of Madrid protection under the so-called 5Bis procedure of the Insolvency Act then in force. As the result of this procedure, negotiations with all financial institutions were held, and an viable agreement for the Company was reached, but was not actually signed because the Company had requested previously the Voluntary Arrangement with Creditors as the result of the refusal by a private entity to sign a refinance agreement. As stated above, the Company had to submit to the Voluntary Arrangement with Creditors and therefore the negotiation process with the main creditors, whatever their nature, are null and void. Since then, the Company has been working on a Viability Plan that will afford to set some payment deadlines in order to meet all of the Company's debt. At the time when these financial statements are being prepared, the Company is working internally on a proposal of agreement containing the conditions to be offered to each creditor group.

i.3) Actions to generate liquidity.

As it has already made known to the market several times, the Company has been working for almost two years in finding appropriate sources of funding, and has analysed all possible alternatives to generate additional liquidity, so that the necessary financial resources are generated in order to meet all the commitments of the Company and so that the investment projects of the Business Plan can be launched.

In order to solve the deficit revealed in the financial resources, other alternatives for generating additional liquidity are being analysed, while negotiations with potential investors are still being held. The Company, in spite of the situation, is still growing and working on the development of its business, and keeps obtaining income in different ways:

- Increased revenue due to the International expansion of the brand, thus diversifying the cash generation coming from different countries.

  Zinkla has signed two new Commercial Licensing Agent agreements and Merchandising Celebrity Endorsement for the United States and Canada with the reference company in that sector, IMG Worldwide, Inc. ("IMG"). In addition, the Company has also signed a new Merchandising Licensing Commercial Agent agreement with Square Licensing Ltd. ("Square Licensing") for the United Kingdom and Ireland.

- Improving the exploitation of digital licenses, online content and associated advertising in order to increase the recurring cash inflow from this activity. This type of licensing has a much shorter collection period than traditional licenses.

- On November 20th 2013, the Company was communicated the definitive resolution of the aid granted within the subprogram of Strategic Action for Economy and Digital Society promoted by the Ministry of Industry, Energy and Tourism, amounting to EUR 541, 970, and consisting of a subsidy of 65,036 euros and a loan of 476,934 euros. This aid is intended for a project already engaged by the Company, and which the Company aims to develop with its own staff mostly, so that the costs thereof remain subsumed as part of its current costs, and so that all this activity would be financed by this operation.
- At present the Company is still in the process of seeking funds to develop its business plan, considering many alternatives (banks, investment funds, etc.).

These activities are fully detailed in the management report presented by the Company together with these annual Financial Statements. Therefore, the Company continues to grow and has decided to prepare these annual Financial Statements by applying the principle of functioning company and considering that all these are transitory circumstances on their way to be solved.

The Directors of the Company consider that, if the different creditors were to adhere the Proposal of Arrangement that the Company is preparing, this, together with the rest of the other activities that are being carried out, will lead the Company to obtain the financial resources and the necessary agreements to fulfil all of its obligations.

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3. Accounting policies

3.1 Intangible assets

a) Research and development expenses

Research expenditure is recognised as an expense when incurred. Development costs incurred in projects are recognised as intangible assets when it is probable that the project will be carried out considering its technological and commercial feasibility, there are sufficient technical and financial resources to complete it, the costs incurred may be measured reliably and a profit is likely to be generated.

If an asset's carrying value is greater than the estimated recoverable amount, the carrying value is written down immediately to the recoverable amount (Note 3.4).

If the circumstances favouring the project that permitted the capitalisation of the development costs should change, the unamortised portion is expensed in the year of change.

b) Licenses and trademarks

Licences and trademarks have defined useful lives and are carried at cost less accumulated amortisation and recognised value adjustments for impairment. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 3-5 years.

c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of five years.

Expenses associated with software maintenance are recognised when incurred. Costs directly related to the production of identifiable and unique computer programs controlled by the Company and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Direct costs include costs relating to employees developing the software and an appropriate percentage of general expenses.

Software development costs recognised as assets are amortised over the software's estimated useful life, which does not exceed 5 years.

3.2 Property, plant and equipment

Property, plant and equipment items are stated at acquisition price or production cost, less accumulated depreciation and accumulated impairment losses recognised.

Own work capitalised is measured by adding the direct or indirect costs of the asset to the price of the consumable materials.

The costs associated with expanding, upgrading or improving property, plant and equipment are carried as an increase in the asset's value only when they entail an increase in its capacity, productivity or the extension of its useful life and provided that in the case of assets written off from inventories owing to replacement, the carrying value can be known or estimated.

The cost of major repairs is capitalised and depreciated over the estimated useful life of the asset, while recurring maintenance costs are charged to the income statement in the year in which they are incurred.

Depreciation of property, plant and equipment, with the exception of land, which is not depreciated, is calculated systematically using the straight-line method over the assets' estimated useful lives based on the actual decline in value brought about by operation, use and possession. Estimated useful lives are as follows:

Property, plant and equipment	Years
Machinery and tooling	4 - 8
Other equipment	8
Furnishings	10
Data-processing equipment	4 - 5
Other PPE	10

The residual values and useful lives of assets are reviewed and adjusted, if necessary, at each balance sheet date.

If an asset's carrying value is greater than the estimated recoverable amount, the carrying value is written down immediately to the recoverable amount (Note 3.4).

Gains and losses on the disposal of property, plant and equipment are calculated by comparing the sales revenue with the carrying amount and are recognised in the income statement.

3.3 Interest costs

Financial expenses directly attributable to the acquisition or construction of fixed assets that require more than one year before they become operational are included in the cost of the assets until they are ready for use.

3.4 Losses due to impairment of non-financial assets

Assets with indefinite useful lives, such as goodwill, are not amortised but rather tested annually for impairment. Depreciable assets are tested for losses due to impairment whenever there is an event or circumstance that indicates that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, understood as the asset's fair value less the higher of costs to sell and value in use. For the purposes of assessing impairment losses, assets are grouped together at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units). Non-financial assets other than goodwill, which are impaired, are reviewed at the balance sheet date for reversal of the loss.

3.5 Financial assets

a) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included in current assets, except for those maturities dates longer than 12 months since the balance sheet date, which are classified as non-current assets. Loans and receivables are included in "Loans to companies" and "Trade and other receivables" in the balance sheet.

Financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortised cost. Accrued interest is recognised at the effective interest rate, which is the discount rate that brings the instrument's carrying amount into line with all estimated cash flows to maturity. However, trade receivables falling due in less than one year are carried at their face value at both initially and subsequently, provided that the effect of not updating the cash flows is not significant.

At least once a year at the end of the year, the necessary value adjustments are made to account for impairment when there is objective evidence that no receivables will be collected.

The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate prevailing at the date of initial recognition. Value adjustments, and reversals, where applicable, are recognised in the income statement.

b) Held-to-maturity investments: Held-to-maturity financial assets are debt securities with fixed or determinable payments and fixed maturity, that are traded on an active market and that Company management has the positive intention and ability to hold to maturity. If the Company sells a material amount of held-to-maturity financial assets, the entire category would be reclassified as available for sale. These financial assets are included in non-current assets, except for those maturing in less than 12 months of the balance sheet date which are classified as current assets.

The measurement criteria applied to these investments are the same as for loans and receivables.

c) Financial assets held for trading: All those assets held for trading, purchased for sale in the short term or that form part of an instrument portfolio, identified and managed jointly to obtain short-term gains. Derivatives are also classified as held for trading provided that they do not relate to a financial guarantee contract and have not been designated as a hedge.

d) Other Financial assets at fair value through profit or loss: are considered financial assets at fair value through profit or loss those financial assets designated by the Company upon initial recognition for inclusion in this category due to this recognition reduces accounting mismatches or these assets are included in a group whose performance is measured at fair value according to an informed strategy.

e) Equity investments in group companies, jointly-controlled entities and associates: They are stated at cost less, where appropriate, accumulated value adjustments for impairment. Nonetheless, when there is an investment prior to its classification as a group company, jointly-controlled entity or associate, its carrying value prior to that classification is regarded as the investment cost. Previous value adjustments accounted for directly in equity are held under this heading until they are written off.

If there is objective evidence that the carrying value cannot be recovered, adjustment are made as necessary to reflect the difference between the carrying value and the recoverable amount, this being understood as the fair value less the cost of the sale and the current value of the cash flows derived from the investments, whichever is greater. Unless there is better evidence of the recoverable value, when estimating the impairment of these investment the net equity of the investee company corrected by the tacit surpluses existing on the valuation date is taken into account. The value adjustment and, if appropriate, its reversal, are reflected in the income statement for the year in which they arise.

f) Available-for-sale financial assets: This category includes debt securities and equity instruments that have not been classified in any of the preceding categories. They include non-current assets unless management intends to sell the investment within 12 months of the balance sheet date.

They are measured at fair value and any changes are recorded in equity until the asset is disposed of or is impaired, which shall be the time when the accumulated gains and losses are taken to the income statement provided that such fair value can be determined. Otherwise, they are reflected at cost less impairment.

Impairment is considered permanent whenever there is a drop of more than 40% in the market value of the asset, or if it has declined for over one year and a half period with no recovering.

The fair values of quoted investments are based on the prevailing bid prices. If the market is not active for a financial asset (and for unlisted securities), the Company establishes a fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis methods and option pricing models, making a maximum use of observable market data and relying as little as possible on the Company's subjective considerations.

Financial assets are written off when substantially all the risks and rewards attached to ownership of the asset are transferred. For accounts receivable in particular, this situation is generally understood to arise if the insolvency and default risks have been transferred.

Assets designated as hedged items are subject to the measurement requirements of hedge accounting (Note 3.6).

3.6 Financial derivatives and hedge accounting

Financial derivatives are measured at fair value at both initial recognition and subsequent measurement. Resulting gains and losses are recognised depending on whether the derivative is designated as a hedging instrument or not and, if so, the nature of the item being hedged. The Company designates certain derivatives as;

a) Fair value hedges: Changes in the fair value of derivatives that are designated and qualify as fair value hedges are reflected in the income statement together with any changes in the fair value of the asset or liability hedged that are attributable to the hedged risk.

b) Cash flow hedges: The part of the change in the fair value of the derivatives designated as cash flow hedges is tentatively recognised in equity. It is taken to the income statement in the years in which the forecast hedged transaction affects results unless the hedge relates to a forecast transaction ending in the recognition of a non-financial asset or liability, in which case the amounts reflected in equity are included in the cost of the asset when it is acquired or of the liability when it is assumed.

The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

c) Hedges of a net investment in foreign operations: For hedges of net investments in joint ventures without a separate legal personality and foreign branches, changes in the value of the derivatives attributable to the hedged risk are recognised temporarily in equity and taken to the income statement in the year when the investment in the foreign operation is disposed of.

Hedges of net investments in foreign operations in subsidiaries, jointly-controlled entities and associates are treated as fair value hedges with respect to the exchange component.

Hedging instruments are measured and accounted for by nature insofar as they are not or are no longer effective hedges.

For derivatives not qualifying for hedge accounting, any gains or losses in fair value are recognised immediately in the income statement.

3.7 Equity

Share capital consists of ordinary shares.

The cost of issuing new shares or options is charged directly against equity, as a reduction in reserves.

In the event that the Company's acquires treasury shares, the price paid, including any directly attributable incremental cost, is deducted from equity until the treasury shares are redeemed, reissued or sold. When treasury shares are subsequently sold or reissued, any amount received is taken to equity net of directly attributable incremental costs.

3.8 Financial liabilities

a) <u>Creditors and payables</u>

This includes trade and non-trade payables. Borrowings are classed as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months as from the balance sheet date.

Payables are initially recognised at fair value, adjusted for directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method. The effective interest rate is the discount rate that brings the instrument's carrying amount into line with the expected future flow of payments to the maturity date of the liability.

Nonetheless, trade payables falling due in less than one year without a contractual interest rate are carried at their face value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant.

In the event of the renegotiation of existing debts, the financial liability is not deemed to change significantly when the lender of the new loan is the same as the initial lender and the present value of cash flows, including net fees, is not more than 10% higher or lower than the present value of cash flows payable on the original liability, calculated using the same method.

For convertible bonds, the Company determines the fair value of the liability component by applying the interest rate for similar non-convertible bonds. This amount is recorded as a liability on an amortised cost basis until it is settled on conversion or maturity of the bonds. Other income obtained is assigned to the conversion option that is recognised in equity.

b) <u>Financial liabilities held for trading:</u> All those held-for-trading liabilities issued to be repurchased in the short term or that are part of a financial instrument portfolio, identified and managed jointly to obtain short-term gains. Derivatives are also classified as held for trading provided that they do not relate to a financial guarantee contract (i.e. securities) and have not been designated as a hedge.

c) <u>Other Financial liabilities at fair value through profit or loss:</u> are considered financial liabilities at fair value through profit or loss those financial liabilities designated by the Company management upon initial recognition for inclusion in this category due to this recognition reduces accounting mismatches or these liabilities are included in a group whose performance is measured at fair value according to an informed strategy.

3.9 Grants received

Repayable grants are recognised as liabilities until the conditions for the grants to be treated as non-repayable are fulfilled. Non-repayable grants are recognised directly in equity and are taken to income on a systematic and rational basis in line with grant costs. Non-repayable grants received from shareholders are recognised directly in equity.

A grant is deemed to be non-repayable when it is awarded under a specific agreement, all stipulated conditions for obtaining the grant have been met and there are no reasonable doubts that the funds will be received.

Monetary grants are carried at the fair value of the amount granted and non-monetary grants are carried at the fair value of the asset received, at the recognition date in both cases.

Non-repayable grants used to acquire intangible assets; property, plant and equipment, and investment property are recognised as income for the period in proportion to the amortisation or depreciation charged on the relevant assets or, if applicable, upon their sale, value adjustment or write-off. Non-repayable grants related to specific costs are recognised in the income statement in the period in which the relevant costs accrue, and non-repayable grants awarded to offset an operating deficit are recognised in the year they are awarded, unless they are used to offset an operating deficit in future years, in which case they are recognised in those years.

3.10 Current and deferred taxes

Income tax expense (income) is the amount of income tax that accrues during the period. It includes both current and deferred tax expense (income).

Both current and deferred tax expense (income) is recognised in the income statement. However, the tax effect of items recorded directly in equity is recognised in equity.

Current tax assets and liabilities are carried at the amounts that are expected to be payable to or recoverable from the tax authorities, in accordance with prevailing legislation or regulations that have been approved and are pending publication at the year end.

Deferred income tax is calculated, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, if the deferred tax arises from the initial recognition of a liability or an asset on a transaction other than a business combination that at the time of the transaction has no effect on reported or taxable results, they are not recognised. The deferred tax is determined applying tax regulations and rates approved or about to be approved at the balance sheet date and which are expected to be applied when the corresponding deferred tax asset is realised or deferred tax liability is settled.

Deferred tax assets are recognised insofar as future tax profits will probably arise against which to offset the temporary differences.

Deferred taxes on temporary differences arising on investments in subsidiaries, associates and joint ventures are recognised, except where the Company is able to control the reversal date of the temporary differences and such differences are unlikely to reverse in the foreseeable future.

3.11 Severance pay

Under current legislation, the Company is obliged to pay severance to employees who terminated their employment relationship under certain conditions.

Therefore, severance pay can be reasonably quantified are recognised in the year in adopting the decision to terminate the employment relationship that creates the right to receive such compensation. Benefits which are not going to be paid within twelve months of the balance sheet date are discounted at present value.

3.12 Provisions and contingent liabilities

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events, an outflow of funds will probably be necessary to settle the obligation, and the amount may be reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are carried at the present value of forecast payments that are expected to be required to settle the obligation, using a rate before taxes that reflects the current market assessment of the time value of money and the specific risks of the obligation. Adjustments to the provision deriving from restatements are recognised as financial expenses as they accrue.

Provisions maturing in one year or less with no significant financial effect are not discounted.

When it is expected that a portion of the payment necessary to settle the provision will be reimbursed by a third party, the reimbursement is recognised as an independent asset, provided that receiving the reimbursement is practically certain.

Contingent liabilities are considered to be potential liabilities deriving from past events, the existence of which is subject to the occurrence of one or more future events that lie outside the control of the Company. These contingent liabilities are not recorded in the accounts but are described in the notes presenting the financial statements.

3.13 Revenue recognition

Revenue comprises the fair value of the consideration receivable and represents amounts receivable for goods delivered and services rendered in the ordinary course of the Company's activities, net of returns, rebates, discounts and value added tax.

In the licensing and merchandising there are two kinds of incomes which are accounted as follows:

Guaranteed minimum incomes: The minimum guaranteed are fixed amounts agreed with the client who will be paying them on the dates specified in the agreement. The amounts agreed are not refundable by the Company, but the client is allowed to deduct these amounts from future sales. With these guaranteed minimum amounts the company ensures the business and the license as signing the agreement with client the company will receive the agreed amounts without fulfilling any obligation.

In accordance with BOICAC 80/2009, which details how to account incomes by audiovisual and cinematographic companies, the accrual of the amounts agreed with the client by guaranteed minimum arrives when agreement is signed so these incomes are recorded at the agreement date.
The balancing entry of this income will be an asset in which it reflects the guaranteed minimum which the accrue has occurred. This account will diminish according to the billing of quantities by the agreed dates.

Royalties: The Company gives a license to the client by a fixed amount as explained above and a percentage of product sales. Monthly or quarterly client will report the amount of the sales and the company will invoice based on this information.

The Company recognises royalty's revenues when they arise if it is possible.

In both cases, the company recognises incomes according to the accrual principle either by agreement date or by income generation period.

The Company recognises revenues when the amount can be reliably measured, future economic benefits are likely to flow to the entity and the specific conditions for each of the Company's activities are met. A reliable calculation of the amount of revenue is not deemed possible until all sale-related contingencies have been resolved. The Company's estimates are based on historical results, taking into account customer type, transaction type and specific terms.

3.14 Leases

a) When the Company is lessee – Finance leases

The Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company holds substantially all the risks and rewards of ownership are classed as finance leases. Finance leases are capitalised at inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Present value is calculated using the interest rate implicit in the lease agreement and, if this rate cannot be determined, the interest rate applied by the Company on similar transactions.

Each lease payment is distributed between the liability and financial charges. The total financial charge is apportioned over the lease term and taken to the income statement in the period of accrual using the effective interest rate method. Contingent instalments are expensed in the year they are incurred. Lease obligations, net of financial charges, are recognised in "Finance lease liabilities". Property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

b) When the Company is the lessee – Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lesser are classified as operating leases. Payments made under operating leases (net of any incentives received from the lesser) are charged to the income statement in the period of accrual on a straight-line basis over the term of the lease.

3.15 Foreign currency transactions

a) Functional and presentation currency

The Interim Financial Statements are presented in euro, which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates prevailing at the transaction dates. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in fair value of monetary instruments denominated in foreign currency classified as available for sale are analysed for translation differences resulting from changes in the amortised cost of the instrument and other changes in its carrying value. Translation differences are recognised in results for the year while other changes in fair value are recognised in equity.

Translation differences on non-monetary items such as equity instruments held at fair value through profit or loss are presented as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in equity.

3.16 Transactions between related parties

In general, transactions between group companies are initially recognised at fair value. If applicable, where the agreed price differs from the fair value, the difference is recognised based on the economic reality of the transaction. Transactions are subsequently measured in accordance with applicable standards.

In spite of the above, in company mergers transactions, spin-off procedure or non-monetary investment, the company applies the following criteria:

a) For transactions between related parties involved in the parent company or its subsidiary directly or indirectly, business items are valued by the amount after transaction and so are reflected in consolidated financial statements.
b) For transactions between other related parties, business assets are valued at book value before transaction and so are reflected in individual financial statements.

If there is a difference it will be included in reserves.

3.17 Share-based payment transaction

The Company has committed to certain senior management employees, a plan for long-term variable remuneration consisting of the delivery of shares. At the time that will occur the necessary conditions to execute that plan, the Company will recognize this fact in equity.

The Company has established, by loan agreement with a private institution, a share-based payment of a portion of the amount financed. Upon maturity of the loan, the company will deliver shares in the amount agreed cancelling them from equity, particularly under the heading "Treasury Stock".

For transaction with employees to be settled with equity instruments, both goods or services as the increase in equity to recognize, will be valued according to the fair value of the equity instruments granted, referring to the date of the concession agreement. Those transactions settled with equity instruments that do result in goods or services other than those rendered by employees are valued, if it can be estimated reliably, the fair value of the goods or services on the date they are received. If the fair value of the goods or services received cannot be estimated reliably, goods and services received and the increase in equity will be valued at fair value of the equity instruments granted, referring to the date on which the company obtains the goods or the counterpart renders service.

4. Financial risk management

4.1 <u>Factors of financial risk</u>

The Company's activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on unpredictability of financial markets and seeks to minimise the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Company's Treasury Department, which identifies, evaluates and hedges financial risks in accordance with the policies approved by the Board of Directors. The Board provides guidelines for overall risk management and written policies covering specific areas such as foreign exchange risk, interest rate risk, liquidity risk, use of derivatives and non-derivatives and investing excess liquidity.

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a) Market risk

(i) *Foreign exchange risk*

The Company operates internationally and is exposed to foreign exchange risk from currency exposures, particularly, in relation to the US dollar and the pound sterling. Foreign currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

At December 31st 2013, approximately 68% of the Company's turnover is generated in countries whose local currency is not euro, 67% represents U.S. dollar and the remaining 1% represents other currencies. At December 31st 2012 the percentage of revenue from countries whose local currency is not euro raised to 90%, out of which 86% represented U.S. dollar. Zinkia has a bank account in U.S. Dollars used to receive receipts and order payments in that currency. The Company currently has no hedge mechanism against fluctuations in currency exchange rates. Therefore, Zinkia is exposed to fluctuations in exchange rates derived from the development of its activities in various countries outside the euro environment in which it operates, as well as from the potential changes that may occur in the various currencies in which the Company maintains its commercial debt. If the Company's turnover in other currencies grows, the Company's exposure to exchange rate fluctuations shall increase.

Since the Company's operating currency is euro, the operating income and the Company's own comparison of its financial results between periods could be adversely affected as the result of the conversion of those currencies into euros at the exchange rate existing at the closing balance of both items, income and expenses. By contrast, where the Company provides services outside Spain (offshore) to customers and, therefore, the revenue is received in euros, an appreciation of the currency of that country could lead to an increase in the costs due to fluctuations in the exchange rates.

The exchange rate between the currency of the various countries where the Company operates and the euro has been subject to substantial fluctuations in recent years and, in the future, they could continue oscillating. At December 31st 2013, the impact of the exchange rates on the net financial income was a loss of 423,580 euros representing approximately 23% of the net financial income of the Company. At December 31st 2012 the impact of the exchange rate on the net financial income was a loss of 16,030 euros, which represented approximately 17% of the financial income.

(ii) *Price risk*

The Company is not exposed to equity instrument price risk because of the investments held and classified on the balance sheet either as available for sale or carried at fair value through profit or loss. The Company is not exposed to commodity price risk.

(iii) *Interest rate, cash flow and fair value risk*

Since the Company does not hold significant interest-bearing assets, the income and cash flows generated by operating activities are relatively protected from fluctuations in market interest rates.

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to the cash flow interest rate risk. Fixed interest rate borrowings expose the Company to fair value interest rate risks.

At December 31st 2013, in particular, 82% of the total debt of the Company was referenced to fixed interest rate, the percentage was the same as for the prior year, representing a higher financial cost that would be applied if the debt was indexed to variable interest rates (i.e. Euribor) because of their currently lower levels. As a result of this unfavourable situation, the cost of credit has increased and its availability is limited, which has caused many companies to experience difficulties or inability to make investments financed with credit and bank loans. Furthermore, these funding difficulties are further aggravated by the current crisis in the banking and financial sector in Spain, country where the company is headquartered. At December 31st 2013 the debt average rate is 6.51%. At the 8rtrrend of 2012 the debt average rate was 6.49%.

The Company analyses its interest rate exposure in a dynamic manner. A simulation is performed of various scenarios, taking into account the refinancing, renewal of current positions, alternative financing and hedging. On the basis of these scenarios, the Company calculates the effect on results of a certain variation in the interest rate. For each simulation, the same variation in interest rates is used for all currencies. Scenarios are only simulated for liabilities representing the most significant interest-bearing positions.

b) Credit risk

Credit risk is managed by groups. The credit risk results from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions also wholesalers and retailers, including accounts receivable outstanding and committed transactions. The Company only does business with reputable banks and financial institutions.

To carry out its business activities, the Company requires the raising the necessary financial resources to ensure the development of its projects and the growth of its business. The Company has financed its investments primarily through credits and loans from financial institutions, capital and debt securities issues. At December 31, 2013, net financial debt (total financial debt less "Cash and equivalents") of the Company amounted to 10,157,628 euros. At December 31, 2012 this amount raised to 8,442,518 euros.

However, the global economic crisis and the current adverse market situation have resulted, in recent years, in a very restricted and more burdensome access to credit for any operator (higher financing costs and higher interest expenses).

To the Company in particular, this situation has worsened further due to the difficulties in generating the cash flows required for the payment of its debts in the short term. The negative working capital of the Company interferes with obtaining the financing for the business development and reduces the chances of refinancing.

If the restriction on credit markets continues or worsens, the financing costs of the Company could be so high that access to this type of financing could be restricted, almost entirely. This could cause a material adverse impact on the activities, in the result of the operations or in the financial position of the Company.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, keeping funds available through sufficient committed credit facilities and having the ability to close out market positions.

Given the current climate of credit crunch in the markets as mentioned in the paragraph above, such lack of liquidity is a looming problem for growing businesses such as Zinkia.

Such as indicated in Note 2i), the Company is currently facing a major liquidity problem due to which Zinkia's Board of Directors decided to seek a declaration of voluntary arrangement with creditors, and the actions underway described in Note 2i).

4.2 Fair value estimation

The fair value of financial instruments traded on active markets (such as publicly traded instruments and available for sale securities) is based on market prices at the balance sheet date. The listed price used for financial assets is the ordinary buyer's price.

The fair value of financial instruments not listed on active markets is determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. For long-term debt market prices or agent quotation prices are used. Other techniques, such as estimated discounted cash flows, are used to determine fair value for other financial instruments. The fair value of interest rate swaps is calculated as the present value of estimated future flows. The fair value of exchange rate forward contracts is determined using future rates listed on the market at the balance sheet date.

It is assumed that the carrying value of trade receivables and payables approximate their fair value. The fair value of financial liabilities for the reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate that the Company has for similar financial instruments.

5. Intangible assets

The details and movements of the items included in intangible fixed assets are as follows:

Euro	Balance at 12/31/2012	Additions	Disposals or reductions	Transfers	Balance at 12/31/2013
Research and development	6.351.594	1.209.088	-	(1.785.661)	5.775.021
Intellectual property	11.877.019	-	-	1.785.661	13.662.680
Computer software	516.370	10.396	-	37.773	564.539
Intangible assets advances	37.773		-	(37.773)	
Total	18.782.756	1.219.484	-	-	20.002.240
<u>Accumulated amortisation</u>					
Research and development	(246.985)	(35.916)	-	-	(282.901)
Intellectual property	(9.237.576)	(1.069.115)	-	-	(10.306.691)
Computer software	(465.533)		-	-	(465.533)
Total	(9.950.094)	(1.105.031)	-	-	(11.055.125)
<u>Impairment</u>			-	-	-
Research and development		(435.843)			(435.843)
Intellectual property					
Computer software					
Total	8.832.662	(321.390)	-	-	8.511.271

Euro	Balance at 12/31/2011	Additions	Disposals or reductions	Transfers	Balance at 12/31/2012
Research and development	5,015,960	1,335,634			6,351,594
Intellectual property	11,825,852	51,167.00	-		11,877,019
Computer software	514,274	2,096	-	-	516,370
Intangible assets advances	16,082	21,692	-	-	37,773
Total	17,372,167	1,410,589	-	-	18,782,756
<u>Accumulated amortisation</u>					
Research and development	(246,985)	-	-	-	(246,985)
Intellectual property	(7,708,323)	(1,529,253)	-	-	(9,237,576)
Computer software	(433,899)	(31,634)	-	-	(465,533)
Total	(8,389,207)	(1,560,887)	-	-	(9,950,094)
<u>Impairment</u>			-	-	-
Total	8,982,959	(150,298)	-	-	8,832,662

The rises and falls registered during the first semester of the fiscal year 2012 and 2013, are mainly based on fixed assets operations.

Research and development expenses

Development costs capitalised relate to the following projects:

Euro				2013
Project	Cost	Acumulated amortisation	Impairment	Carrying value
Developed by the company				
Work in progress	5,528,036	-	(435,843)	5,092,193
Completed projects	246,985	(246,985)	-	
	5,775,020	(246,985)	(435,843)	5,092,193

During 2013 the Company has deteriorated some projects since it can not determine whether it will be able to generate future cash flows and thus be economically successful.

Euro				2012
Project	Cost	Acumulated amortisation	Impairment	Carrying value
Developed by the company				
Work in progress	6,104,609	-	-	6,104,609
Completed projects	246,985	(246,985)	-	-
	6,351,594	(246,985)	-	6,104,609

The total amount of research and development costs that are recognized as income in the profit and loss account during the year amounted to 1,209,088 euros (1,335,634 euros in 2012).

Industrial property rights

Recorded under this caption are the operating licences for the following projects: Pocky and the Shuriken School project.

During 2013 transfers to Industrial Property have amounted to 1,785,661 euros,, out of which 1,649,849 euros correspond to the completion of five educational applications and 135,812 euros correspond to project completion Zinkia family & Kids IPTV (Pocoyo TV).

Capitalised financial expenses

No financial expenses were capitalised during 2013. The same situation as in 2012.

Intangible assets located abroad

At December 31st 2013, the Company had no intangible asset investments located outside of Spain. The same situation as in 2012.

Fully-amortised intangible assets

At December 31st 2013, there were intangible fixed assets with an accounting cost of EUR 4,011,367 still in use and fully amortised. These intangible assets correspond to software and audiovisual projects.

At December 31st 2013, there were intangible fixed assets with an accounting cost of EUR 3,771,366 still in use and fully amortised. These intangible assets correspond to software and audiovisual projects.

Assets subject to guarantees and ownership restrictions

At December 31st 2013, no intangible assets are subject to ownership restrictions or have been pledged to secure liabilities. At December 31st 2012 the situation was the same.

Insurance

The Company has taken out a number of insurance policies to cover risks relating to intangible assets. The coverage provided by these policies is considered to be sufficient.

Grants received in relation to intangible assets

The Company has received during 2013 grants for the development of the Pocoyo Moving project amounting to 35,750 euros and for the development of the Zinkia Croupier project amounting to 48,777 euros. These grants are subject to compliance with certain requirements imposed to the Company by the corresponding Ministry granting each aid, so as a precaution, no such amounts charged to equity until these requirements are not met and may be considered as non-refundable. On the other hand, the Company has received notification of the full recognition as subsidy from the Ministry of Education, Culture and Sport, of a grant amounting to 60,000 euros that had been granted to the Company for the development of the project Zinkia family & Kids IPTV (Note 20). Thus this grant is now considered non-refundable, so this is the only amount charged to the assets of the Company during the year.

6. Property, plant and equipment

Set out below is an analysis of property, plant and equipment showing movements:

Euro	Balance at 12/31/2012	Additions	Disposals or reductions	Transfers	Balance at 12/31/2013
Cost					
Machinery	31,689	-	-	-	31,689
Other equipment	38,198	-	-	-	38,198
Furnishings	76,062		-	-	76,062
Data-processing equipment	156,080	2,610	-	-	158,690
Other PPE	28,444	-	-	-	28,444
Total	330,471	2,610	-	-	333,080
Accumulated amortisation					
Machinery	(31,405)	(125)	-	-	(31,530)
Other equipment	(29,924)	(2,214)	-	-	(32,137)
Furnishings	(51,606)	(4,812)	-	-	(56,419)
Data-processing equipment	(128,193)	(14,162)	-	-	(142,356)
Other PPE	(13,084)	(2,838)	-	-	(15,922)
Total	(254,212)	(24,152)	-	-	(278,364)
Impairment	-	-	-	-	-
Total	76,259	(21,542)	-	-	54,716

Euro	Balance at 12/31/2011	Additions	Disposals or reductions	Transfers	Balance at 12/31/2012
Cost					
Machinery	31,689	-	-	-	31,689
Other equipment	38,198		-	-	38,198
Furnishings	73,346	2,715	-	-	76,062
Data-processing equipment	151,164	4,916	-	-	156,080
Other PPE	28,444	-	-	-	28,444
Total	322,838	7,631	-	-	330,470
Accumulated amortisation					
Machinery	(31,285)	(120)	-	-	(31,405)
Other equipment	(25,921)	(4,003)	-	-	(29,924)
Furnishings	(45,930)	(5,676)	-	-	(51,606)
Data-processing equipment	(109,283)	(18,910)	-	-	(128,193)
Other PPE	(10,246)	(2,838)	-	-	(13,084)
Total	(222,665)	(31,547)	-	-	(254,212)
Impairment	-	-	-	-	-
Total	100,173	(23,916)	-	-	76,258

Insurance

The Company has taken out a number of insurance policies to cover risks relating to intangible assets. The coverage provided by these policies is considered to be sufficient.

Grants received in relation to intangible assets

The Company has received during 2013 grants for the development of the Pocoyo Moving project amounting to 35,750 euros and for the development of the Zinkia Croupier project amounting to 48,777 euros. These grants are subject to compliance with certain requirements imposed to the Company by the corresponding Ministry granting each aid, so as a precaution, no such amounts charged to equity until these requirements are not met and may be considered as non-refundable. On the other hand, the Company has received notification of the full recognition as subsidy from the Ministry of Education, Culture and Sport, of a grant amounting to 60,000 euros that had been granted to the Company for the development of the project Zinkia family & Kids IPTV (Note 20). Thus this grant is now considered non-refundable, so this is the only amount charged to the assets of the Company during the year.

Property, plant and equipment

Set out below is an analysis of property, plant and equipment showing movements:

Euro	Balance at 12/31/2012	Additions	Disposals or reductions	Transfers	Balance at 12/31/2013
Cost					
Machinery	31,689	-	-	-	31,689
Other equipment	38,198	-	-	-	38,198
Furnishings	76,062		-	-	76,062
Data-processing equipment	156,080	2,610	-	-	158,690
Other PPE	28,444	-	-	-	28,444
Total	330,471	2,610	-	-	333,080
Accumulated amortisation					
Machinery	(31,405)	(125)	-	-	(31,530)
Other equipment	(29,924)	(2,214)	-	-	(32,137)
Furnishings	(51,606)	(4,812)	-	-	(56,419)
Data-processing equipment	(128,193)	(14,162)	-	-	(142,356)
Other PPE	(13,084)	(2,838)	-	-	(15,922)
Total	(254,212)	(24,152)	-	-	(278,364)
Impairment	-	-	-	-	-
Total	76,259	(21,542)	-	-	54,716

Euro	Balance at 12/31/2011	Additions	Disposals or reductions	Transfers	Balance at 12/31/2012
Cost					
Machinery	31,689	-	-	-	31,689
Other equipment	38,198		-	-	38,198
Furnishings	73,346	2,715	-	-	76,062
Data-processing equipment	151,164	4,916	-	-	156,080
Other PPE	28,444	-	-	-	28,444
Total	322,838	7,631	-	-	330,470
Accumulated amortisation					
Machinery	(31,285)	(120)	-	-	(31,405)
Other equipment	(25,921)	(4,003)	-	-	(29,924)
Furnishings	(45,930)	(5,676)	-	-	(51,606)
Data-processing equipment	(109,283)	(18,910)	-	-	(128,193)
Other PPE	(10,246)	(2,838)	-	-	(13,084)
Total	(222,665)	(31,547)	-	-	(254,212)
Impairment	-	-	-	-	-
Total	100,173	(23,916)	-	-	76,258

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Impairment losses

The company did not recognise any losses due to the Impairment of its property, plant and equipment in 2013.

Restatements under RD-Law 7/1996 of June, 7th

No revaluations of fixed assets have been applied in 2013.

Property, plant and equipment located abroad

At December, 31st 2013, the Company recorded the following investments in property, plant and equipment located at its Beijing offices:

				2013
Fixed assets	Cost	Accumulated amortisation	Impairment	Carrying value
Furnishings	7,001	(5,418)	-	1,583
Data-processing equipment	10,571	(10,571)	-	
	17,572	(15,989)	-	1,583

				2012
Fixed assets	Cost	Accumulated amortisation	Impairment	Carrying value
Furnishings	7,001	(4,734)	-	2,267
Data-processing equipment	10,571	(10,359)	-	212
	17,572	(15,093)		2,479

Capitalised financial expenses

No financial expenses associated to property, plant and equipment were capitalised in 2013.

Fully-depreciated assets

At December 31st 2013, the Company had fully depreciated assets valued at EUR 192.622 euros, still in use.

	2013	2012
Machinery	30,811	30,559
Data-processing equipment	104,594	97,072
Furnishings	33,553	30,062
Other PPE	23,664	23,664
	192,622	181,356

Property, plant and equipment subject to guarantees

At December 31st 2013 no property, plant and equipment were subject to ownership restrictions or had been pledged to secure liabilities.

Assets under operating leases

The income statement includes operating leases on the rental offices in Madrid and Beijing and computer rentals, all of which total EUR 251,330 (304.763 euros en 2012). At December 31st 2013 the Company has not non-cancellable operating leases.

Insurance

The Company has taken out a number of insurance policies to cover risks relating to property, plant and equipment. The coverage provided by these policies is considered to be sufficient.

Grants received in relation to property, plant and equipment

In 2013 and 2012, the company has not received capital grants in relation to property, plant and equipment.

7. Analysis of financial instruments

7.1 Analysis by category

The carrying value of each category of financial instruments set out in the standard on accounting and measurement of "financial instruments", except for investments in the equity of group companies, jointly-controlled entities and associates (Note 8), is as follows:

	Euro					
	Non-current financial assets					
	Equity instruments		Debt securities		Credit facilities, derivatives, other	
	2013	2012	2013	2012	2013	2012
Available-for-sale financial assets	26,383	28,183	-	-	-	-
Loans and receivables (Note 11)	-	-	-	-	4,226,132	3,979,292
Total non-current financial assets	26,383	28,183	-	-	4,226,132	3,979,292
	Current financial assets					
	Equity instruments		Debt securities		Credit facilities, derivatives, other	
	2013	2012	2013	2012	2013	2012
Assets held for trading	164	181	-	-	-	-
Held to maturity (Note 9)	-	-	-		-	-
Loans and receivable (Note 11)	-	-	-	-	2,970,564	4,472,426
Total current financial assets	164	181	-	-	2,970,564	4,472,426
Total	26,548	28,364	-	-	7,196,696	8,451,718

	Euro					
	Non-current financial liabilities					
	Bank borrowings		Debentures an other marketable securities		Derivatives, other	
	2013	2012	2013	2012	2013	2012
Borrowings and payables (Note 13)	555,917	759,295	2,238,000		4,013,422	6,129,412
Hedging derivatives (Note 12)					-	53
Total non-current financial liabilities	555,917	759,295	2,238,000	-	4,013,422	6,129,465
	Current financial liabilities					
	Bank borrowings		Debentures		Derivatives, other	
	2013	2012	2013	2012	2013	2012
Borrowings and payables (Note 13)	1,296,397	1,405,032	33,039	2,027,004	5,075,666	3,034,922
Total current financial liabilities	1,296,397	1,405,032	33,039	2,027,004	5,075,666	3,034,922
Total	1,852,314	2,164,328	2,271,039	2,027,004	9,089,088	9,164,387

At December 31st, 2013 the Company has a deposit of restricted availability related to the issuance of bonds amounts to EUR 219,134.

Loans and long-term receivables relate mainly to an account receivable from Carears Diapers, LLC regarding the amount of the guaranteed minimum 3,897,977 established a licensing agreement with the licensee. The agreement was initially signed on June 24, 2012, the deadline date of the first payment on June 23, 2013. However, because of the delay in product marketing, both parties have agreed in November 18, 2013 on the modification of the original contract so the next maturity is due in 2015.

For this reason, the entire balance of this account is receivable in the long term.

At December 31, 2013, the Company had loan instalments due and unpaid, as discussed in note 12) herein, the Company has had to present the Application for Voluntary Arrangement with Creditors, and therefore the negotiation process with major creditors has had no effect, whatever their nature. Since then, the Company has been working on a viability plan that shall allow the Company to set certain payment deadlines to meet all of its debt. At the time of presentation of these yearly financial statements, the Company is working internally in the preparation of a proposal of agreement with the conditions to be offered to each group of creditors.

7.2 Analysis by maturity

Financial instruments having fixed or determinable maturities are shown below by year of maturity:

	Euro					
	Financial Assets					
	2014	2015	2016	2017	There after	Total
Investments in group companies and associates -Loans and receivables Total	- -	54,619 54,619	- -	- -	- -	54,619 54,619
Other financial investments -Loans and receivables Total	2,970,561 2,970,561	1,471,240 1,471,240	1,299,326 1,299,326	1,299,326 1,299,326	101,620 101,620	7,142,076 7,142,076
Total	2,970,561	1,525,859	1,299,326	1,299,326	101,620	7,196,691
	Financial liabilities					
	2014	2015	2016	2017	There after	Total
Other financial liabilities Bank borrowings Derivatives Other financial liabilities Total	1,296,397 - 5,108,715 6,405,111	249,406 - 2,320,935 2,569,341	48,697 - 402,630 451,327	20,644 - 922,865 943,509	239,171 - 2,604,991 2,843,162	1,852,315 - 11,360,137 13,212,450
Total	6,405,111	2,569,341	451,327	943,509	2,843,162	13,212,450

As indicated in Note 2.i within the amounts with maturity date in 2014, 818,054 euros, and already due in December 31, 2013, are included.

8. Shares in group companies, jointly-controlled entities and associates

a) Shareholdings in Group companies

The information on group, jointly-controlled and associate companies is detailed below:

Name and address	Legal status	% Interest held		Voting rights	
		Direct %	Indirect %	Direct %	Indirect %
Sonocrew, S.L. Infantas 27, Madrid	Limited liability company	100.00%	-	100.00%	-
Producciones y Licencias Plaza de España, S.A. de C.V. Av Presidente Massaryk 61, piso 2, México D.F.	Public limited company	100.00%	-	100.00%	-
Cake Entertainment, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	51.00%	-	51.00%	-
Cake Distribution, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	-	51.00%	-	51.00%
Cake Productions, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	-	51.00%		51.00%
HLT Productions Van der Helstlaan 48. 1213 CE Hilversum. The Netherlands	Private limited company	-	51.00%	-	51.00%

On August, 9th 2010, the Company made an investment in a group company with the creation of the subsidiary Producciones y Licencias Plaza de España, S.A. de C.V. This subsidiary is located abroad, in Mexico, and its operating currency is the Mexican peso.

A 51% stake in the company Cake Entertainment, Ltd. was acquired on June, 2nd 2011. The company is headquartered in England and its functional currency is the pound sterling.

None of the Group companies in which the Company has an interest is listed on the stock exchange.

Set out below are the figures for capital, reserves, results and other information at December, 31st 2013:

Equity							
Company	Capital	Reserves	Losses carryforwards	Operating results	FY profit (loss)	Carrying value of the Investment	Dividends received
Sonocrew, S.L	3,006	49,879	-	3,108	289	3,006	-

Equity								
	Mexican peso					Euro		
Company	Capital	Reserves	Losses carryforwards	Operating results	FY profit (loss)	Carrying value of the Investment	Value adjustments for Impairment	Dividends received
Producciones y Licencias Plaza de España, S.A. de C.V.	2,050,000	-	(1,013,917)	(172)	(359)	72,933	(72,933)	-

Equity									
Euro									
Company	Capital	Share premium	Reserves	Losses carryforwards	Operating results	FY profit (loss)	Carrying value of the Investment	Value adjustments for Impairment	Dividends received
Cake Entertainment, Ltd	1,230	148,476	16,838	(185,653)	40,825	32,093	989,158	-	-

Equity									
Euro									
Company	Capital	Share premium	Reserves	Losses carryforwards	Operating results	FY profit (loss)	Carrying value of the Investment	Value adjustments for Impairment	Dividends received
Cake Distribution, Ltd	222	-	(16,939)	752,317	93,407	4,405	-	-	-

Equity									
Euro									
Company	Capital	Share premium	Reserves	Losses carryforwards	Operating results	FY profit (loss)	Carrying value of the Investment	Value adjustments for Impairment	Dividends received
Cake Productions, Ltd	1	-		(56,567)	(8,309)	(8,309)	-	-	-

Equity									
Euro									
Company	Capital	Share premium	Reserves	Losses carryforwards	Operating results	FY profit (loss)	Carrying value of the Investment	Value adjustments for Impairment	Dividends received
HLT Productions BV	18,000	-	(22,030)		6,607	6,782	-	-	-

During 2013, the Company has deteriorated 100% of its Investment in Square Productions & Licensing Spain, SA de C.V.

The company Cake Entertainment Ltd, is the head of a group of companies consisting of three subsidiaries, Cake Distribution Ltd, Cake Productions Ltd. and HLT Productions BV.

9. Held-to-maturity investments

At December 31st 2013 and 2012, the Company has not held-to-maturity investments.

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10. Financial Assets at a reasonable value with changes in Income Statement

This heading includes the following items and amounts:

	2013	*Euro* 2012
Held for trading-listed securities		
SCH bank shares (Note 7)	164	181

The fair value of all equity securities is based on current asking prices on an active market.

The changes to the fair value of assets at fair value with changes in profit and loss during the year are recorded under financial profit/loss on the income statement.

Maximum exposure to the credit risk at the reporting date is the fair value of the assets.

11. Loans and receivables

	2013	*euro* 2012
Non-current loans and receivables		
-Clients, non-current	4,069,891	3,979,292
-Clients, subsidiaries	54,619	
-Non-current deposits	101,619.00	-
Total non-current loans and receivables	**4,226,129**	**3,979,292**
Current loans and receivables		
-Loans to associates (Note 26)	413,218	413,218
-Current account with subsidiaries (Note 26)	332	416
-Current account with related parties	20,688	4,755
-Trade receivables	1,369,027	3,415,252
-Trade receivables subsidiaries	112,021	461,236
-Employees	21	
-Debtors		-
-Interest in current investments (Note 26)	63,448	32,026
-Current deposits	991,809	145,523
-Financial products		-
Total current loans and receivables	**2,970,564**	**4,472,426**
Total	**7,196,693**	**8,451,718**

The carrying amounts of loans and receivables are denominated in the following currencies:

	2013	2012
Euro	2,429,437	1,547,696
US dolar	4,624,478	6,510,056
Pound sterling	121,482	109,537
Australian dolar	404	69,302
Yuan	17,467	212,192
Other	3,426	2,935
Total	7,196,694	8,451,718

Overdue trade receivables which are less than three months old are not considered to be impaired.

Also, non-current trade receivables item in the interim balance sheet shown client balances with maturity exceeding 12 months from the end of 2013.

This item of non-current trade receivables, includes the valuation at amortized cost balances with a maturity of over one year. This valuation represents a decrease of this game, and income before taxes of 452,687 euros (330,216 euros at the end of 2012).

At December 31, 2013 the Company has written off receivable accounts since they are considered non-collectable in 64,032 euros. These receivables had been provisioned for as doubtful debts in 2012.

The amount of these balances impaired at year end amounted to 119,916 euros (183,948 euros in 2012). The variation corresponds to 64,032 euros discharged as non-collectable at year end.

The maximum exposure to credit risk at the reporting date is the fair value information for each of the categories of receivables mentioned above. The Company does not hold any guarantee as insurance.

The fair value of financial assets does not differ substantially from the book value.

At December 31, 2012, there was a collection right granting a postponement to the Public Treasury (Note 21). Corresponding to a contract with an international client who serves as security for the fulfilment by the Company of these obligations up to the total sum agreed in the dossier which amounted to 207,639 euros, and present and future returns.

In December 2013, the Public Treasury notification on the cancellation of this guarantee was received thanks to the fact that the Company had secured the economic responsibilities guaranteed.

Similarly, the Company has been granted a stay by the General Treasury of the Social Security amounting to 433, 465 euros, which has been secured with the economic rights of three customers. At the year-end, there is no amount within the of receivable accounts balance sheet related to these customers.

12. Derivative financial instruments

euro

	2013	2012
Interest rate swaps-clash flow hedges	-	
CAP	3	53
Total	**3**	**53**
Less non-current portion	3	53
Non-current	**3**	**53**
Current	-	-

The total fair value of a hedging derivative is classified as a non-current asset or liability if the time remaining to maturity of the hedged item is more than 12 months and as a current asset or liability if the time remaining to maturity of the hedged item is less than 12 months.

In December 31, 2013, the outstanding notional principal from the contracts of rates swap amounted to 200,000 euros.

In December 31, 2013 the Company entered into a C.A.P. agreement with a 3,950 euros premium. This CAP showed a positive valuation of 3 euros at year-end.

In December 31, 2013, the fixed interest rate was 1.95% and the floating rate was 12M Euribor. Gains or loss recognized in equity under "Adjustments for changes in value" on interest rate swaps at December 31, 2013 have been transferred to the income statement.

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13. Creditors and payables

	2013	2012
		Euro
Non-current creditors and payables		
-Bank loans	555,917	759,295
-Participating loans	500,000	500,000
-Other loans	3,145,698	5,286,216
-Debentures and bonds	2,238,000	-
-Payables transformable into grants	367,724	343,196
Total non-current creditors and payables	6,807,339	6,888,707
Current creditors and payables		
-Bank loans	1,254,490	1,390,124
-Other payables to banks		1,660
-Interest debt with banks	41,906	13,249
-Debentures and bonds	33,049	2,027,004
-Trade creditors	1,653,855	1,950,949
-Trade creditors subsidiaries	448,521	253,626
-Fixed assets creditors	44,229	44,625
-Current account with related parties	53,096	86,801
-Interest debt with related parties	3,586	1,310
-Other debts	2,500,021	382,000
-Interest debt	352,266	200,989
-Wages and salaries pending of payment	20,092	368,248
-Advances from clients		-
Total current creditors and payables	6,405,111	6,720,584
Total	13,212,450	13,609,292

The carrying value of non-current loans is close to fair value, given that the future cash flows derived from the repayment of the loans includes market rate interest.

The carrying amounts of current payables approximate their fair values, since the effect of discounting is immaterial.

Maturity of bank borrowings is detailed in note 7.2. Interest rates are between 2% and 6%. The carrying amounts of the Company's payables are denominated in the following currencies:

		Euro
	2013	2012
Euro	12,645,723	13,126,021
US dolar	545,812	459,015
Pound sterling	14,944	14,274
Yuan	5,971	9,981
Total	13,212,450	13,609,291

a) Bank borrowings

The details of the Company's balances with credit institutions at December, 31st 2013 are as follows:

	Non-current balance	Current balance	Total
Loans	555,917	1,254,490	1,810,407
Total loans	555,917	1,254,490	1,810,407

Euro

	Non-current balance	Current balance	Total
Credit facilities	-	-	-
Total credit facilities	-	-	-
Interest on current bank borrowings	-	41,906	41,906
Total interest on current bank borrowings	-	41,906	41,906
TOTAL	555,917	1,296,397	1,852,314

Euro

b) Participating loans

The Company has a participative loan agreement amounting to 500,000 euros that generates an annual interest rate which is calculated on an annual nominal rate basis resulting from the percentage of before-tax results on the average shareholders' equity for the year, both referred to the year in which interest rate is to be settled; once such percentage has been determined, the percentage points expressing the first tranche will be subtracted; the difference will result in the annual nominal rate to be applied in the settlement of the interest payable on the second tranche. In the event of a negative percentage, the variable rate is 0%.

Amortization is fixed in six equal semi-annual payments as of 30/06/2016.

c) Fixed income securities issue

On November, 11th 2010, the Company issued debt securities pursuant to the terms of Stock market Act 24/1988 of July, 28th and the regulations that developed the law.

The conditions of the issue are as follows:

Number of securities	2,238
Unit par value	1,000
Issue price	100%
Annual interest rate payable annually	9.75%
Amortisation of securities	11/12/2013
Amortisation system	At par

As stated in note 2.I.1) herein, after the failure of the new debt issue, for the explained reasons, and given the manifest impossibility to meet the coming debt repayment milestones, as the amortization to maturity of the debenture bond issue "Debentures Simple Zinkia 1st issue" was to mature in November 2013, the Company requested, in October 31, 2013, the legal procedure under art . 5bis of the Insolvency Act in order to renegotiate these conditions and reach a new agreement that would allow the full repayment of the bonds.

Thus, on December 9, 2013, the General Assembly of Bondholders "Debentures Simple Zinkia 1st issue" approved the modification of the Final Payment Conditions for the "Debenture Simple Zinkia 1st Issue" according to the following terms:

Number of securities	2,238
Unit par value	1,000
Issue price	100%
Annual interest rate payable annually	11.00%
Amortisation of securities	11/12/2015
Amortisation system	At par

Unfortunately, as it has been mentioned above, due to the refusal to renegotiate an amount of EUR 2,500,000 by a private lending institution, the Company has submitted an application for voluntary arrangement with creditors. And therefore these conditions are left void and null, and shall depend on what might be decided in the relevant stages of the arrangement procedure. The Company intends to submit an Arrangement Proposal that Bondholders may join or not, and if the majorities required by law are achieved, the Proposal must be approved, as appropriate, by the Insolvency Administrator and the competent judge.

<u>Current accruals and deferred income</u>

This amount arises in 2012 following the contract signed for development of content in educational *apps* concept. In October was invoiced the amount for seven apps developed. Accordance with the accounting standards applied by the company incomes from this project will accrue at the delivery of materials. This item will decrease according to allocation of incomes. In 2013 revenues were recorded in the Income statement amounting to 1,248,256 euros.

14. Cash and cash equivalents

At December 31st 2013, the Company's cash situation was as follows:

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	2013	2012
Cash at bank and in hand	903,439	2,530,618
Other cash equivalents	139	1,931
Total	903,578	2,532,549

15. Capital and share premium

a) Capital

Euro

	2013	2012
Registered capital (Uncalled capital)	2,445,677	2,445,677
Total	2,445,677	2,445,677

At December 31st 2013, the registered capital consisted of 24,456,768 ordinary bearer shares represented by book entries with a par value of EUR 0.10 each, fully subscribed and paid in.

At December 31st 2013, the share capital was broken down as follows:

Shareholder	% Interest
Jomaca 98, S.L.	64.71%
Miguel Fernando Valladar	11.20%
Stock market and other	22.94%
Treasury shares	1.15%
Total	100.00%

The Company's shares are listed on the Alternative Investment Market (Mercado Alternativo Bursátil- MAB).

a) Share premium account

This reserve is freely available for distribution.

Euro

	2013	2012
Share premium	9,570,913	9,570,913
Total	9,570,913	9,570,913

This caption also reflects, both in 2012 and 2013, the merger premium generated in 2004 as a result of the merger by absorption of the companies Gamecrew, S.L. and Motioncrew, S.L. in the amount of EUR 118,100,25.

16. Reserves and prior-year results

Reserves

	2013	2012
	Euro	
Legal and statutory		
-Legal reserve	330,475	237,262
Total legal reserve	**330,475**	**237,262**
Other reserves		
-Voluntary reserve	1,689,018	1,672,369
-Reserves for other adjustments	(1,101,070)	(915,278)
Total other reserves	**587,948**	**757,091**
Total	**918,424**	**994,353**

Legal reserve

The legal reserves are funded in compliance with Article 274 of the Spanish Companies Act, which stipulates that 10% of the profits for each year must be transferred to this reserve until it represents at least 20% of share capital.

The legal reserve is not available for distribution. Should it be used to offset losses in the event of no other reserves being available, it must be replenished out of future profits.

17. Treasury shares

At the end of 2013, the Company carried out certain transactions with its own shares, recording the transactions as changes in the Company's equity.

The movements under the heading of "Treasury Stock" on the balance sheet during the year were as follows:

	2013	
	Number of shares	Euro
Starting balance	281,503	403,841
Additions	347,554	404,187
Disposals	(347,554)	(404,187)
Ending balance	**281,503**	**403,841**

At the end of the year 2012 the movements were as follows:

	2012 Number of shares	2012 Euro
Starting balance	579,367	950,560
Additions	36,122	39,369
Disposals	(333,986)	(586,088)
Ending balance	**281,503**	**403,841**

The treasury stock held by the Company at December 31st 2013 represented approximately 1.15% (1.15% at December, 31st 2012) of the share capital with a nominal value of EUR 28,150 (EUR 28,150 at December, 31st 2012) and an average acquisition price of EUR 1.09 (EUR 1.09 at December, 31st 2012) per share. Also, the average selling price of the treasury stock held by the Company in December 31, 2013 is 1.75 euros per share (1.75 euros at 31 December 2012).

The result of the purchase and sale of own shares in the current year is a loss of 185,793 euros recognized in Reserves (157,170 euros in 2012)

18. Profit/(loss) for the year

a) Profit /(loss) for the period

The proposal of distribution of the result and reserves to be presented before the General Assembly of Bondholders, is as follows:

Euro

	2013	2012
Available for distribution		
Profit/(loss) for the year	(1,020,297)	932,131
Total	(1,020,297)	932,131
Application		
Legal reserve		93,213
Retained losses offsetting		838,918
To prior-year losses	(1,020,297)	
Total	(1,020,297)	932,131

19. Based payment transactions in equity instruments

a) Transactions with senior management and members of the Board of Directors

On October 10th, 2011, the Company issued a Relevant Fact under Article 82 of Securities Market Law 24/1988 and Memorandum 9/2010 of the Spain's Alternative Investment Market (Mercado Alternativo

Bursatil–MAB) which reported on the Long-term Variable Compensation Plan according to resolution of the Board of Directors.

This plan provides delivery of shares to senior management and members of the Board of Directors. The characteristics and conditions are as follow:

- The aggregate number of shares that all beneficiaries of the plan shall be entitled to will be of 1,200,000 shares.
- The plan will be 5 year-long, and its beneficiaries will be entitled to receive annually 20% of total shares to which they were entitled.
- Shares shall be delivered under the condition that at the time of execution of the plan, the value of the stock has been appreciated by at least 30% of the value of share price as of June, 30th, 2011. In addition, the Company shall have obtained during the previous year distributable profits that will afford by exclusively charging 30% thereof and subject to the availability of sufficient liquidity at that time, responding to the acquisition of shares.

The delivery of shares corresponding to each beneficiary in terms of compliance with the established indicators can be made, in the opinion of the Board, by delivery of shares and delivery of the monetary equivalent of the combined value of trading for same at the time of execution.

On December 31st 2013, there were no conditions mentioned above to implement the plan, so no need to recognize both the good or services received as an increase in equity.

b) Other share based payment

On March 11th 2011, the Company issued a Relevant Fact under Article 82 of Securities Market Law 24/1988 and Memorandum 9/2010 of the Spain's Alternative Investment Market (Mercado Alternativo Bursatil – MAB) which reported signing a loan with a private institution for amount of euro 2,500,000. In the loan agreement signed by both parties set out the compulsory purchase of own shares by the Company amounting to euro 300,000, must provide, upon maturity of the loan- February 14th 2014- the amount of euro 2,200,000 plus shares acquired with the above euro 300,000.

The Company bought own shares amounting to EUR 300,000 in accordance with the agreement. These own shares are registered in a separate account decreasing company net equity. In the balance sheet are valued at weighted average price. In the event that the value of the shares, at that date, is less than that amount, the Company undertakes to cover the difference in share or cash.

Concerning this operation, the number of shares purchased amounts to 206,881, and their market value at year end was 148,954 euros and 239,982 euros at year-end 2012.

However, as stated in the contract, the Company will cover the difference in shares or cash.

At the date of presentation of these annual financial statements, the Company has been unable to reach a satisfactory renegotiation agreement with the borrowing entity and loan-holder. In this situation, the Board of Directors has decided to present the application of the Voluntary Arrangement with Creditors of the Company in February 26, 2014 (Note 28).

20. Capital grants received

Below is a breakdown of the non-repayable capital grants included in the balance sheet item "Grants, donations and bequests received":

Granting entity	Euro	Purpose	Grant date
Education, Audiovisual and Culture Agency	150,000	Pre-production of 3 audiovisual works	11/6/2007
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	8/3/2010
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	8/3/2010
Ministry of Culture	46,469	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	8/3/2010
Ministry of Culture	60,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2012	7/11/2012

Movements of these grants were as follows:

	2013	2012
		Euro
Opening balance	130,978	105,542
Increases	64,086	46,469
Release to income	(16,342)	(12,554)
Other decreases	(24,206)	(8,479)
Closing balance	154,515	130,978

As stated in Note 5 of this financial statements, the Company has received during the year 2013 capital grants for the development of Pocoyo Moving project amounting to 35,750 euros and for the development of the Croupier Zinkia project amounting to 48,777 euros.These grants are subject to compliance with certain requirements imposed to the Company by the the corresponding Ministry granting each aid, so as a precaution, no such amounts are charged to equity until these requirements are not met and may be therefore be considered as non-refundable. On the other hand, the Company has received notification of the full recognition as subsidy from the Ministry of Education, Culture and Sport, of a grant amounting to 60,000 euros that had been granted in 2012 to the Company for the development of the project Zinkia family & Kids IPTV. Thus this grant is now considered non-refundable, so this is the only sum charged to the assets of the Company during the year, net of the tax effect.

The Company meets the requirements to be considered as non-repayable grants. Grants are transferred to the profit and loss account according to the amortization of the projects funded.

21. Deferred taxes

Set out below is an analysis of deferred tax:

Euro	2013		2012	
	Debtors	Creditors	Debtors	Creditors
Tax Authorities Balance				-
VAT	42,935		100,223	
Withholding	2	128,467	731	301,648
Grants		152,597		
Social Security Balance				-
Operating expenses		43,059		41,318
Short term deferment		80,970		77,839
Total	42,937	405,093	100,954	420,805

The changes in deferred taxes are as follows:

Euro	Additions 2013	Additions 2012	Prior years	Total
Tax credits for tax-loss carryforwards	701,564	(338,743)	1,732,103	2,094,924
Other tax credits	191,879	174,845	2,857,555	3,224,278
Deferred tax assets	893,443	(163,898)	4,589,657	5,319,202
Temporary differences related to income recognized directly in equity	(10,915)	(8,479)	(35,180)	(54,574)
Temporary differences-amortisation	(2,386)	-	(18,627)	(21,013)
Reversal of temporary differences-amortisation	4,894	4,091	2,607	11,593
Deferred tax liabilities	(8,406)	(4,388)	(51,199)	(63,994)
Deferred tax	885,037	(168,286)	4,538,458	5,255,208

Deferred tax assets and liabilities are offset if at the time the Company has an enforceable right to offset the amounts recognised and intends to settle the net amount, or to realise the asset and settle the liability simultaneously.

Movement of deferred taxes has been as follows:

Euro	2013	2012
Opening balance	4,370,171	4,538,458
Tax effect on income recognizes directly in equity	(10,915)	(8,479)
Charged to the income statement (Note 23)	895,952	(159,808)
Closing balance	5,255,208	4,370,171

Deferred tax assets arising from tax loss to carry-forwards are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Company, despite its current situation, is confident in its ability to generate future profits, so it has not made any accounting change for this item.

Year acquisitions of tax credits on tax losses are mainly attributable to the activation of tax losses amounting to 1,343,042 euros in 2013 and the recognition of an additional 282,002 euros as credit deferred as the result of the updating to 30% rate of the credits and recognised in previous years to 25%, since it is estimated that 30% is the tax rate that will be compensated in the future. The taxable bases pending compensation at December 31, 2013 totalled 6,983,072 euros.

In 2013 the Company has capitalised the deductions to be applied in the amount of EUR 91,721. This amount corresponds mainly to double taxation deductions, which at end year 2013 amount to 91,426€

Furthermore, due to the tax legislation containing a limitation on the expenses to deduct from the year depreciation, at year end 2013 an asset amounting to 100,158 euros is generated.

a) <u>Other tax receivables and payables</u>

At December 31, 2013, the Company has been granted a deferment by the Social Security General Treasury, related to social security contributions. The amounts due over one year showed in non-current liabilities amounts to EUR 239.763. And the amount due in less than one year showed in this connection in current liabilities amount to 80,971 euros.

As stated in note 11 herein, the Company has pledged as security for such postponement, the economic rights of three clients. At year-end, there is no amount in the account of receivables related to these customers.

Moreover, during 2013, the Company settled the other deferment granted by the Tax Authorities regarding withholding taxes, such deferment thus is finished.

22. Income and expense

a) Transactions denominated in foreign currency

Transactions carried out in foreign currency are as follows:

Euro	2013	2012
Sales	3,656,816	7,420,081
Services rendered	522,250	812,415
Total	4,179,066	8,232,496

The break down of the exchange rate differences is as follows:

Euro	2013	2012
Arising during the year	(10,260)	5,620
Arising for closing balance	(413,320)	(21,650)
Total	(423,580)	(16,030)

b) Turnover

Revenues from the Company's ordinary activities may be analysed geographically as follows:

Market	2013	2012
Domestic	25%	7%
International	75%	93%
Total	100%	100%

Similarly, net turnover can be analysed by product line as follows:

Line	2013	2012
Content	40%	18%
Licensing	28%	70%
Advertising	32%	12%
Total	100%	100%

c) Raw materials and consumables

All of the work done by other companies, particularly with regard to scriptwriting, recording, etc., is recognised under the heading of "raw materials and consumables:

Euro	2013	2012
Raw materials and consumables	162,279	28,132
Total	162,279	28,132

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d) Other operating expenses

The caption titled "other operating expenses" comprises the following items:

Euro	2013	2012
Leases	251,330	304,763
Repairs	16,577	29,480
Independent professional services	1,758,114	1,646,860
Insurance	40,350	37,126
Bank fees	45,673	22,165
Advertising and public relations	244,998	225,871
Utilities	40,586	81,422
Other general expenses	201,724	263,969
Other taxes	3,332	11,348
Impairment losses on commercial transactions	23	79,031
Losses on commercial transactions	63,709	-
Reversal of impairment losses on commercial transactions	(63,709)	-
Total	2,602,706	2,702,036

e) Staff expenses

Euro	2013	2012
Wages, salaries and similar rem	1,643,347	2,397,185
Social Security	437,665	578,242
Other expenses	3,227	70,292
Total	2,084,239	3,045,718

The average number of employees by category during the period was as follows:

CATEGORY	Average number of employees	
	2013	2012
5-YR DEGREE HOLDER	20	23
3-YR DEGREE HOLDER	4	5
SR.MANAGER	5	7
MANAGER 1		0
MANAGER 2	2	2
OFFICIAL 1	7	15
OFFICIAL 2	1	2
ASSISTANT	2	2
PROGRAMMER		1
OPERATOR	5	3
		0
Total	47	58

The distribution of the Company's personnel at year-end, by gender and category, is as follows:

CATEGORY	2013		2012	
	Men	Women	Men	Women
5-YR DEGREE HOLDER	6	17	7	10
3-YR DEGREE HOLDER	3	1	3	1
SR.MANAGER	4	1	4	3
MANAGER 1				
MANAGER 2	2		2	
OFFICIAL 1	7	1	7	
OFFICIAL 2	1		1	
ASSISTANT		2		2
PROGRAMMER				
OPERATOR	4	3	2	
Total	27	25	26	16

f) Other operating revenue

The caption titled "other operating revenue" comprises the following items:

Euro	2013	2012
Services rendered to staff	-	1,470
Other services	-	
Total	-	1,470

23. Corporate income tax and tax situation

The reconciliation between net income and expense for the year and the taxable base is set out below:

Euro

	Income statement			Income and expense recognised directly in equity		
Income/expense for the year			(1,020,297)			44,763
	Aumentos	Disminuciones		Aumentos	Disminuciones	
Corporate Income Tax			(787,355)			
Permanent differences	114,436	-	114,436			
Temporary differences:						
arising during the year	333,861	-	333,861			-
arising from previous years	16,313	-	16,313		(44,763)	(44,763)
Offsetting tax-loss carryforwards						

The permanent differences relate mainly to a provision recognized in the amount of 100,000 euros corresponding to the administrative decision of the CNMV (note 24) and the deterioration of the participation of the Mexican subsidiary.

Time differences arise from the tax legislation which establishes guidelines for charging depreciation expense. Due to the limitation of the depreciation expense for the year, a time difference arises at 31 December 2013 amounting to EUR 333, 861.

The reconciliation for 2012 was set out as follows:

Euro

	Income statement			Income and expense recognised directly in equity		
Income/expense for the year			932,131			30,758
	Increases	Decreases		Increases	Decreases	
Corporate Income Tax	328,114	(101,695)	226,419			
Permanent differences	113,458	-	113,458			
Temporary differences:						
arising during the year		-	-			
arising from previous years	16,365	-	16,365		(30,758)	(30,758)
Offsetting tax-loss carryforwards			(1,288,373)			

Income tax expense in 2013 is analysed below:

	Current year tax	Income tax paid abroad	Change in equity				TOTAL
			Net charge deferred tax assets			Change in deferred tax liabilities	
			Temporary differences	loss carryforwards	Other credits	Temporary differences	
Charged to the Income Statement To continuing operations	-	(91,947)	100,158	683,919	91,716	2,503	787,355
Total	-	(91,947)	100,158	684,919	91,716	2,503	787,355

Income tax expense in 2012 was:

	Current year tax	Income tax paid abroad	Change in equity				TOTAL
			Net charge deferred tax assets			Change in deferred tax liabilities	
			Temporary differences	loss carryforwards	Other credits	Temporary differences	
Charged to the Income Statement To continuing operations	-	(66,612)	-	(338,743)	174,845	4,091	(226,419)
Total	-	(66,612)	-	(338,743)	174,845	4,091	(226,419)

The Company capitalised deductions in the amount of EUR 6,983,075 at December 31st 2013. (note 21a).

At December, 31st 2013, the Company's corporate tax returns for the years 2009 to 2012 were open to inspection, as were its tax returns for VAT, withholding taxes, business tax, capital gains tax and non-resident tax returns for the years 2010 to 2013.

The Company estimates that tax credits will be recovered within a period not exceeding 10 years.

24. Risks

At December, 31st 2013, the Company recorded a provision amounting to 100,000 euros corresponding to the administrative decision of the CNMV under a disciplinary proceedings. As for the rest of the demands filed, no other provision has been recorded at year end. The reasons for this lack of record of such provisions is the advice of our legal department as well as that of the external law firm office in charge of the demands, since they estimate the risk taken by the Company is low. At the time of preparation of these financial statements, it is not possible to know the final economic consequences, if any, of these events.

25. Director and senior management compensation

a) <u>Remuneration of the members of the Board of Directors</u>

In 2013, the members of the Board of Directors received no remuneration for sitting on the Board.

In 2013 as in 2012, no contributions were made to pension plans or funds for former or current members of the Company's Board of Directors. No such obligations were incurred during the year.

The members of the Company's Board of Directors have received no remuneration in respect of profit sharing or premiums. They received no shares or stock options during the year and nor have they exercised any options and nor do they have any options to be exercised. The Company has undertaken with the members of the Board, a plan for long-term variable remuneration consisting of the delivery of shares. (Note 19)

b) Compensation and loans to senior management personnel X

In 2013 the compensation received by other senior management personnel different than the members of the Board of Directors of the Company has earned gross wages totalling EUR 193.642 at en year. In 2012 their gross wages totalled EUR 496.423. In 2013 the number of senior management staff has been significantly reduced compared to the previous year.

We must underline the existence of special exit clauses set out in a private agreement supplementary to the labor contract. In this regard, the compensation of such employees could amount to 24 months' salary, additional and regardless of the legal compensation due per year worked, if any of the conditions contained in these documents should occur.

b) Shareholdings and directorships held by board members in companies with identical or similar business activities

Article 229, paragraph 2 of the Spanish Capital Companies Act, as worded in Law 26/2003 (July 18th), whereby the Stock Market Act and the Spanish Capital Companies Act were amended to increase transparency in listed companies, obliges Board directors to inform the company of any shareholdings in companies engaged in activities that are the same as or similar or complementary to the company's corporate purpose, any offices or duties performed in such companies, and any activities that are the same as or similar or complementary to the company's objects, carried out for their own account or for the account of third parties.

To this end it is noted that the positions held by the members of the Board of Directors on the governing bodies of other group companies are as follows: José María Castile Oriol is the Director of the company Sonocrew, S.L. and is also a member of the Board of Directors of Cake Entertainment Ltd, a Group company. These positions in Group companies are unremunerated. The other members of the Board of Directors do not participate in other companies with similar or complementary type of activity that constitutes the object of the Company.

26. Other related-party transactions

The transactions set out below were carried out with related parties:

Euro	2013		2012	
	Expense	Income	Expense	Income
Jomaca 98, S.L.		31,422	120,000	32,026
Sonocrew, S.L.	3,493	40,193	7,000	70,336
Yeguada Floridablanca, S.A.			50,000	
Roatán Comunicaciones	119,635			
Armialda, S.A.	312,500			
Otras partes vinculadas	2,545		5,768	-
Cake Entertainment, Ltd				189
Cake Distribution, Ltd	86,358	256,221	174,267	466,096
Total	524,531	327,836	357,035	568,646

The breakdown of the incomes invoiced by Jomaca 98, S.L. refers to financial incomes derived from the loan to Jomaca 98, S.L. Amounting to 413,218 euros (Note 11).

The income invoiced by Sonocrew, S.L. (Company in charge of managing the musical contents of Zinkia's productions) and Cake Distribution (Company in charge of distributing content) are generated by their business activities.

On the other hand, the expenses amounting to 3.493 euros accrued in favour of Sonocrew due to the reciprocal credit line agreement signed by and between the parties.

As for expenses breakdown in Roatan and Armialda, they correspond to advisory services in the field of communication, the former, and consultancy, the latter.

Expenses amounting to 86,358 euros accrued favour of Cake Distribution are derived from their commissions coming from their business activity.

Transactions with related parties are made on normal commercial terms and market conditions.

Closing balances with related-parties

Euro	2013 Debit	2013 Credit	2012 Debit	2012 Credit
Current account with subsidiaries				
Sonocrew, S.L.	139		223	-
Producciones y Licencias Plaza de España, S.A. de C.V.	193	-	193	-
	20,688		4,755	
Long-term debts with subsidiaries				
Sonocrew, S.L.	-		-	61,401
Advance from trade receivable				
Sonocrew, S.L.	-		-	
Long-term trade receivable				
Cake distribution, Ltd	54,619			
Trade receivable				
Sonocrew, S.L.	25		10,000	
Cake distribution, Ltd	111,996		292,429	
Cake Entertainment, Ltd		-	158,807	-
Trade payable				
Maria Doolan		248,161		
Roatán Comunicaciones		59,926		
Bruno Consultores		44,700		
Armialda		333,287		
Jomaca 98, S.L.				20,184
Cake Entertainment, Ltd	-	11,634	-	11,885
Cake Distribution,		43,674		171,558
Armialda, S.A.				50,000
Short-term credits				
Jomaca 98, S.L.	476,666	-	445,244	-
Short-term loans				
Other related parties		27,927		88,111
Long-term loans				
Other related parties		28,755		20,839

Jomaca 98, S.L, as majority shareholder, has granted guarantees to the Company against financial creditors.

27. Environmental information

All operations designed mainly to minimise environmental impacts and protect and improve the environment are deemed to be environmental activities.

In 2013, there were no major environmental expenditures.

28. Events after the balance sheet date

On February 26, 2014, the Company filed a procedure of voluntary arrangement with creditors such as it has been stated in note 2 of these financial statements.

29. Auditors' fees

The professional fees for auditing individual and consolidated financial statements for the Company in 2013 totalled EUR 9,500, and 8,847 euros were additionally accrued from other audit services (six-monthly review in 2013).

The professional fees charged by Garrido Auditores, S.L. amounted to EUR 8,144., and 4,000 euros were additionally accrued from other audit services (six-monthly review in 2012).

The professional fees charged by Garrido Abogados y Asesores Fiscales, S.L. amounted to EUR 41,160 in the same period. Those fees raised to 50.558 euros in the previous year.

30. Other disclosures

The Group is controlled by Jomaca 98, S.L., which owns 64.71% of the Company's shares, the largest amount possessed by any shareholder.

The parent company, which files its accounts with the Madrid Business Register, has claimed the exemption detailed in article 43 of the Commerce Code and does not file consolidated annual accounts. By official decision of December 12, 2013, JOMACA 98, SL has filed for voluntary insolvency.

Impact of International Financial Reporting Standards in the Interim Financial Statements

Article 537 of the of the Corporate Enterprises Act provides that, the companies which have issued securities admitted to trading on a regulated market of any Member State of the European Union and, according to current regulations, only published individuals Annual Accounts, must inform in the Notes of the main variations that would arise in equity and the profit and loss account if they had applied the International Financial Reporting Standards adopted by the European Union Regulations (IFRS-EU) indicating the evaluation criteria applied.

The Company, in the current year, is submitting interim consolidated financial statements, so all the above does not apply.

Information on the deferred payments to suppliers. Third additional provision of Law 15/2010 of July 5th on the "Duty to Inform":

Pursuant to the terms of this law, at end-year 2013, the Company had a balance payable to suppliers in the amount of EUR 1,502,342. During this period, the Company made payments to suppliers amounting to EUR

3,192,890, out of which 48% exceeded the legal limit. The weighted average term of payment amounts to 293 days.

In 2012 the Company had a balance payable to suppliers in the amount of EUR 1,223,414 which had exceeded the legally-established payment deadline. During this year, the Company made payments to suppliers amounting to EUR 1,970,000, which 42% exceeded legal limit. The weighted average term of payment amounts to 170 days.

Issuance of American Depositary Receipts (ADRs) on shares of the Company

On November 10th 2011, the Company issued a Relevant Fact under Article 82 of Securities Market Law 24/1988 and Memorandum 9/2010 of the Spain's Alternative Investment Market (Mercado Alternativo Bursatil–MAB) which reported on the approval by Securities Exchange Commission (SEC) of USA for the issuance of American Depositary Receipts (ADRs) on shares of the Company bound for placement among U.S. investors. Each ADR representing 5 shares of the Company .This transaction did not increase in capital or increase funding for the Company to be made with shares already issued.

31. Guarantees

At year-end, the Company has the following guarantees:

Two from Avalmadrid SGR amounting each to EUR 200,000 and EUR 2,000,000, both are guaranteeing the loans taken with a financial entity for the same amounts (Note 13).

The third guarantee taken with another financial entity amounts to EUR 748,198, whose funds to pledge have been deposited by the Company. This guarantee was required by the Ministry of Industry, Energy and Tourism in order to obtain funds from the Avanza programme (Note 13), regarding the call for "Strategic Action Plan for Telecommunications and Information Society", 2012 annuity, within the sub-program "Competitivity R+D". At June, 30th 2013, the guarantee has already been pledged on Company funds.

Also, the Company has deposited 101,619 euros in cash, at the General Deposit Bank as a guarantee for the Ministry of Industry, Energy and Tourism who required it in order for the Company to obtain the grant for the call "Strategic Action Plan for Telecommunications and Information Society "2013 annuity, within the sub-program" Strategic Action Plan for Digital Economy and society. "(Note 13).

32. Signed Interim Financial Statements

These Annual Statements are signed by the members of the Board of Directors on August.

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ZINKIA ENTERTAINMENT, S.A.
DIRECTORS' REPORT of 2013

Business Performance and Company Situation

The current tension in the financial markets resulting from the current economic downturn has adversely affected the economic activity around the world and Spain in particular. The Company is conditioned by some of the trends that have taken place in the Spanish and international economy in recent years and the revenue from most of its products depend essentially on the state of markets and economies. These trends, among which we must include the slowdown in consumption and the limited bank funding, have affected sales of the products offered reducing therefore the Company income. The global economic crisis and the current adverse market situation in recent years has made it very difficult and burdensome for any operator to access credit. For the Company, this situation has worsened even further due to the existing difficulties in order to generate the cash flows necessary to meet the payment of its debts in the short term.

Zinkia has been working for almost two years in finding appropriate funding sources, analysing all possible alternatives to generate additional liquidity, so that the financial resources will be generated in order for the Company to be capable of meeting all of its commitments and of undertaking the investment projects in the Business Plan. Zinkia conducted the launch of two debt issues authorized by the National Securities Market Commission in 2013, in July and October. In absence of alternative sources of funding and given the outcome of the above referred debt issues, the Company was not capable of facing the milestones of the debt repayment at the end of 2013 and early 2014.

With the aim of protecting the assets of the company and in order to allow the Company to continue with business as usual under the legal umbrella of protection, Zinkia filed on October 31, 2013, the legal procedure under art. 5bis of the Insolvency Act in order to renegotiate and continue negotiations with all the different creditors of the parent company.

During the process of debt negotiation with creditors, a refinancing agreement was reached with Bondholders, and main Financial Institutions and Trade creditors, yet ultimately no satisfactory agreement was reached with a private entity, holder of a loan to the parent company amounting to 2.5 million euros.

Given the situation and as an act of responsibility, the Board of Directors decided to submit an application for Voluntary Arrangement with Creditors last February 26, 2014.

All the above described is the reason why the 2013 figures have not reached the estimated forecast. Zinkia is today actively working in the preparation of this document, as well as in a payment plan and an early proposal of arrangement with the creditors of the company, in order to close a schedule of payments in the coming years to enable the Company to meet its commitments, and in turn, to continue on with its Business Plan. The company estimates that, were the above arrangement accomplished, the Company shall be capable of reaching the expected results for the coming years.

During 2013 the turnover figure has dropped 36% summing up to 5,290.982 euros compared to the 8,239,438 euros of the previous year.

The "content" income has increased 43%, primarily generated from sales related to the delivery of the educational apps developed by the Company.

The "advertising" income has increased 70% over the previous year. This increase in sales is considerable, and in line with expectations, and as a consequence of the Company decision to support this business line within its own sales plans, by adding new resources and efforts to it, the positive impact of it all has been remarkable. Zinkia still expects great results in the coming years.

The year Net sales for the income corresponding to "operating license" have significantly decreased over the previous year. The current situation of the Company has led to delays in the negotiation of license agreements which, in some cases, can last for months. It should be noted that, although the number of licenses has decreased, in recent months major milestones have been reached which lay the foundations of the increase in sales and business activity for the future. As an example, Zinkia has reached agreements with prestigious firms in order to collaborate in the commercial exploitation of merchandising licenses, by means of agency agreements in key territories for the Group, such as the United States, Britain and Italy.

In the past financial year 2012 Zinkia signed a licensing agreement for the distribution of infant care products in the territory of the United States that represented 54% of the total turnover. Since this type of contracts that individually represent a high percentage of total sales, are not necessarily signed every year, such agreements may not be recurring. Therefore, ZINKIA considers interesting analysing the evolution of the 2013-2012 sales excluding the effect of that specific contract. Figures are shown as follows:

€	2012*	2013
Content	1,483,099	2,114,311
Licensing	1,351,159	1,679,057
Advertising	988,733	1,497,614
Total	3,822,991	5,290,982

** Figures without consider Diapers agreement*

It may be noted the good performance of the sales considered without the Diapers agreement, as well as the positive trend showed by the different business lines.

Zinkia is currently implementing business strategies worldwide that shall enable it to achieve its objectives and continue with the geographic diversification of sales. However, it is to be noted that the business has been affected by the economic situation experienced by the Company.

Due to the difficult conditions of access to funding, Zinkia has conducted a thorough survey of the expenditure items, so that it has been capable of generating savings on almost all cost items over 2012.

Staff costs were reduced by 32% since in 2012 a workforce reduction was implemented by means of a collective dismissal of workers, and therefore the number of employees in 2013 was smaller. Other operating expenses have been reduced by 4%.

The Company's Working Capital presents a negative figure amounting to EUR 3.3 million at end year end in 2013. Given the situation and as an act of responsibility, the Board of Directors decided to submit an application for Voluntary Arrangement with Creditors procedure last February 26, 2014.

At December 31, 2013 the financial position of the Company shows a Net Financial Debt, of 10,157,628 euros and Equity amounts to 8,979,829 euros showing a debt ratio over equity of 113%.

Events after the date of end of these year-end Financial Statements

The Board of Directors decided to submit an application for Voluntary Arrangement with Creditors procedure last February 26, 2014.

Outlook for the Company

Zinkia is today actively working in the preparation of this document, as well as in a payment plan and an early proposal of arrangement with the creditors of the company, in order to close a schedule of payments in the coming years to enable the Company to meet its commitments, and in turn, to continue on with its Business Plan. The company estimates that were the above arrangement accomplished, the Company shall be capable of reaching the expected results for the coming years.

For the years 2014 and the following ones, a substantial increase is expected in the turnover of the Company based on the introduction of Pocoyo into new markets, the increase of business lines regarding content and advertisements, as well as the developing of new audiovisual content and brands.

With regard to new projects, the Company is still working on their development and on the achievement of commercial and financial agreements that will afford the stage of production. Projects in progress shall not be abandoned, but their production is postponed to coming years when the economic and financial situation shall be adequate.

Research & Development

Zinkia engages in ongoing research, development and technological innovation, always striving to optimize our production processes and acquire technical skills that allow us to maintain ourselves as a leading company in the sector.

Financial Risk Hedging

In particular, at December 31, 2013, 82% of the total debt of the Company was referenced to fixed interest rates, which means a higher financial cost to the one that would apply if the debt were referenced to variable interest rates (i.e. Euribor), due to reduced levels the later currently present. As a result of this unfavourable situation, the cost of credit has increased and its availability has been reduced, which has caused many companies to experience difficulties or even the impossibility to make investments financed with credit and bank loans. Furthermore, these funding difficulties are further aggravated due to the current crisis in the banking and financial sector in Spain, where the company is headquartered. At December 31, 2013 the average debt rate is 6.51%. At year end 2012 the average debt rate was 6.49%.

However, regarding floating-rate debt, the Company performs interest rate hedging transactions in order to reduce the impact of the fluctuations in interest rates on the Income Statement.

Acquisition of treasury shares

In 2013, 347,554 treasure values were acquired on the Company's will and subsequently sold, obtaining an overall result of 185,793 euros recorded as an increase in equity in the Balance. At December 31, 2013, 281,503 shares are held by the Company with a nominal value of 28,150 euros, and representing 1.15% of share capital.

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DECLARATION OR RESPONSIBILITY FOR FINANCIAL REPORTING

The members of the Board of Directors of ZINKIA ENTERTAINMENT, S.A. listed below declare that, to the best of their knowledge, the financial information for the Company, which includes the Individual and Consolidated Financial Statements of ZINKIA ENTERTAINMENT, S.A. and subsidiaries as at the end of the year 2013, formulated by the Board of Directors at the meeting held on March 31st 2014 and prepared according to the applicable accounting principles, offer a true image of the equity, financial situation and results of ZINKIA ENTERTAINMENT, S.A. and subsidiaries and that the Directors' Report includes an accurate analysis of the Company's business results and position, along with a description of the principal risks and uncertainties faced by the Company and subsidiaries.

Madrid, March 31st 2014

Mr. José María Castillejo Oriol

Mr. Alejandro Ballestero de Diego

JOMACA 98, S.L., represented by
Mr. Julio Covacho López

TEMPLATE SCHEDULE II ANNUAL REPORT ON CORPORATE GOVERNANCE OF ENTITIES -OTHER THAN SAVINGS BANKS- THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

ISSUER IDENTIFICATION

YEAR END REFERENCE DATE 31st DECEMBER 2013

C.I.F. A82659061

Company name: ZINKIA ENTERTAINMENT S.A.

Company address: CALLE INFANTAS 27-28004 MADRID

ANNUAL REPORT ON CORPORATE GOVERNANCE OF ENTITIES -OTHER THAN SAVINGS BANKS- THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS

A.- OWNERSHIP STRUCTURE

A.1 Specify the most significative shareholders or holdings in your entity at year-end date:

NIF or CIF	Name or company name of the shareholder or holding	% over capital share
02310993E	MIGUEL FERNANDO VALLADARES GARCIA	11,20
B82158379	JOMACA 98, S.L.	64,71
05257311V	ALBERTO DELGADO GAVELA	3,75

A.2 Specify, in each case, the family, commercial, contractual or corporate relations among significant shareholders or holdings, as long as they are known by the entity, save if they are hardly relevant or derive from ordinary trading:

NIF or CIF	Names or company names related	Type of relation	Brief description

A.3 Specify, in each case, the family, commercial, contractual or corporate relations among significant shareholders or holdings, as long as they are known by the entity, save if they are hardly relevant or derive from ordinary trading:

NIF or CIF	Names or company names related	Type of relation	Brief description
B82158379	JOMACA 98, S.L.	CONTRACTUAL	LOAN GRANTED BY ZINKIA ENTERTAINMENT S.A.

A.4 Specify, in each case, the restrictions on voting rights as well as any restriction on the acquisition or transfer of capital share:

YES <u>NO</u>

Description of restrictions
None

B.- SHAREHOLDERS MEETING OR EQUIVALENT BODY

B.1 List the List the quorum for the Shareholders Meeting or equivalent body established by the company's statutes. Describe how it differs from the minimum provisions of the Companies Act (LSC), or the rules applied to it.

As stated in Article 10 of the Company's Statues, the Shareholders Meeting is ruled by the Law, the Company's Statutes and the Regulations of the Shareholders Meeting which develop and complete the legal and statutory regulations in matters relating to their call, preparation, and development, and the exercise of the right to information, support, representation and shareholder voting.

According to Article 15 of the Rules of the Shareholders Meeting:

"The Shareholders Meeting shall be validly constituted on first call when the shareholders present, or represented, hold at least twenty-five percent of the share capital with voting rights. At second call, any constitution regardless of the attending share capital shall be valid."

For the ordinary or extraordinary Shareholders Meeting to resolve on the increase or reduction of capital and any other amendment of the Company's Statues, the issuance of bonds, the elimination or restriction of the right of first refusal of new shares and the transformation, merger, spin-off or transfer of assets and liabilities and the transfer of the registered office abroad, it is necessary, in the first meeting, a quorum of shareholders present or represented hold of at least fifty percent of capital share with voting rights.

On second call, a twenty-five percent of the capital will be sufficient, although when shareholders represent less than fifty percent of the share capital with voting rights, the agreements referred to in this paragraph may be taken only validly by the affirmative vote of two-thirds of the capital share present or represented at the Shareholders Meeting

Absences occurring once the Shareholders Meeting is constituted shall not affect the validity of the meeting. "

The regime set out in the Regulations of the Shareholders Meeting of the Company does not differ from the minimum provisions of the Companies Act.

B.2 Explain the rules of adoption of corporate resolutions. Describe how it differs from the regulation under the CA, or in any other applicable regulation.

As stated in Article 13 of the Company's Statutes and Article 26 of the Rules of the Shareholders Meeting, resolutions will be approved by a simple majority of the votes of the shareholders present or represented, except in cases where the applicable law or the statues require a greater majority. To increase or reduce capital or any other amendment of the Company's Statues, the issuance of bonds, the elimination or restriction of the right of first refusal on new shares as well as the transformation, merger, spin-off or transfer assets and liabilities and the transfer of residence abroad, the affirmative vote of two-thirds of the capital present or represented at the Meeting is required when, on second call, shareholders representing twenty-five percent or more of the share capital with voting rights without reaching fifty percent.

This form of action does not differ from provisions in the Companies Act.

Company's statues. Article 10.- General Shareholders Meeting.

[...] Shareholders attending the General Meeting, validly called for or universal, shall decide on the matters within the competence of the Meeting, by the legal majority or by the majority established in the statues [...]

Company's statues. Article 13.- Acting in General Meetings.

[...] Each of the items on the agenda will be discussed and voted on separately, and must, in order to be valid, resolutions must be adopted by a simple majority of votes unless legally a different majority is required for any kind of particular resolutions [...]

B.3 Briefly indicate the resolutions adopted by the general meetings or equivalent bodies during the year referred to in this report, and the vote percentage that served to adopt such resolutions. L

A General Shareholders Meeting took place on 27th June 2013, and the following resolutions were submitted tot he approval of the Shareholders, and were actually approved by the following favour votes:

First.- Exam and approval, where possible, of the Annual Financial Statements (Balance sheet, Income, Change in Equity, Cash-Flow and Memoir) and Management Reports, corresponding to ZINKIA ENTERTAINMENT, S.A. and its consolidated Group in 2012.

Approved by 100% votes.

Second.- Exam and approval, where possible, of the proposal for the distribution of results for the financial year

Approved by 100% votes.

***Third.-** Exam and approval, where possible, of the Boar of Directions management.*

Approved by 96,85 % votes.

***Fourth.-** Ratification and appointment of directors.*

Approved by 96,85 % votes.

***Fifth.-** Delegation of powers to the development, notarisation and registration of previous resolutions and also to make the mandatory filing of the annual individual and consolidated financial statements in the Commercial Register.*

Approved by 100% votes.

B.4 Specify address and access to the website of the entity containing the information on corporate governance.

The information on Corporate Governance can be found by accessing the company's website www.zinkia.com, selecting the bottom information for shareholders and investors placed on the left side of the web menu. The complete address to reach that point is as follows:

http://www.zinkia.com/informacioncorporativa/

B.5 Indicate whether there have been meetings of the various unions that might exist, of the holders of securities issued by the entity, the purpose of the meetings held during the year to which this report and refers major decisions taken.

Zinkia has currently issued Simple bonds denominated Debentures Simple ZINKIA 1st ISSUE, which Final Terms were approved by the CNMV on October 7th 2010, under the Base Paper of the Program for Fixed Income Securities registered with the CNMV at September 28th, 2010.

Given the economic situation of the Company, at October 8th 2013 the market was communicated by Relevant Fact published on the same date, that the Commissioner of the Bondholders, Mr. Hilario Alfaro Moreno had proceeded to call for a Bondholders Meeting,which was scheduled to be held at the Barbieri room of the Hotel Lusso Infantas, located at calle Infantas 29 of Madrid on November 8th 2013, at 12:00 am on first call, and at the same time and in the same venue, on December 9th 2013, on second call, with the following agenda:

First.- Exam and approval, where possible, of the management by the Commissioner of the Bondholders.

- Second.- Ratification of the appointment of the Commissioner of the Bondholders or appointment of a new Commissioner.
- Third.- Exam and approval, where possible, of the Rules of the Bondholders Union.Fourth- Writing-off date of the bonds. Resolutions to be adopted in this respect.
- Fifth.- Powers delegation.
- Sixth.- Reading, and, where possible, approval of the meeting's deed.

The Meeting took place on second call, and the following resolutions were agreed upon: First.- Exam and approval, where possible, of the management by the Commissioner of the Bondholders.

Approved by 100% votes.

Second.- Ratification of the appointment of the Commissioner of the Bondholders or appointment of a new Commissioner.

Approved by 100% votes.

Third.- Exam and approval, where possible, of the Rules of the Bondholders Union.

Approved by 100% votes.

Fourth- Writing-off date of the bonds. Resolutions to be adopted in this respect.

Approved by 99,37% votes.

Fifth.- Powers delegation.

Approved by 100% votes.

Sixth.- Reading, and, where possible, approval of the meeting's deed.

Approved by 100% votes.

C ENTITY'S MANAGEMENT STRUCTURE

C.1 Board or managing body

C.1.1 List the maximum and minimum number of board directors or members in the managing body, as provided by the Company's Statues:

Maximum number of board directors/ members managing body	**10**
Minimum number of board directors/ members managing body	**3**

C.1.2 Fulfil the following table on the board directors or managing body members, and their different status:

BOARD DIRECTORS/MEMBERS OF THE MANAGING BODY

Director NIF or CIF	Name or company name of the director/ managing body member.	Representative	Last date of appointment
00.397.125-F	José Maria Castillejo Oriol		26/05/2009
B-82158379	Jomaca 98, S.L.	Julio Covacho López	26/05/2009

		(002253830Z)	
05.257.311-V	Alberto Delgado Gavela		26/05/2009
03.849.152-X	Alejandro Ballestero de Diego		26/05/2009
B-83522201	Angel-Martin Ortiz Abogados, S.L.	Angel-Martin Ortiz Bueno (02616945M	27/06/2013

C.1.3 Identify, in each case, the members of the board or the managing body holding a position as directors or managers in other entities part of the group holding:

Director NIF or CIF	Name or company name of the director/ managing body member.	Company name of the group entity	Group entity NIF or CIF	Position
00.397.125-F	José Maria Castillejo Oriol	SONOCREW, S.L.U.	B83363705	Sole Director
00.397.125-F	José Maria Castillejo Oriol	CAKE ENTERTAINMENT, LTD.	GB 927507412	Director

C.1.4 Fulfil the following table with the information related to the number of female directors in the board and their fees, as well as their evolution during the last four years:

	Number of female directors			
	Year t Number %	Year t-1 Number %	Year t-2 Number %	Year t-3 Number%
Board director	No female directors	-	-	-
Executive commission	No female member			
Audit Committee	No female directors			
Commission				

C.1.5 Fulfil the following table with the aggregate remuneration of the directors or members of the managing body, during the year:

Remuneration Concept	Thousands of euros	
	Individual	Group

Fixed remuneration	0	0
Variable remuneration	0	0
Allowances	0	0
Other Allowances	0	0
TOTAL:	0	0

C.1.6 Identify those managing directors who are not at the same time board directors or executive members of the managing body and specify their remuneration accrued during the year:

NIF or CIF	Name or company name	Position
002253830Z	JULIO COVACHO LOPEZ	DIRECTOR GENERAL
07496832M	LOREA GARCIA JAUREGUI	DIRECTOR LEGAL and HUMAN RESOURCES

Total remuneration of high managers (thousands euros)	193

C.1.7 Specify if the company's statutes or the rules of the board establish a time limit to the board of directors or the members of the managing body:

YES NO

Maximum number year mandates	0

C.1.8 Specify it the Annual Financial Statements, consolidated and individual, submitted to the approval of the board or managing body, are previously certified:

YES NO

Identify in each case, the person/people who have certified the Annual Financial Statements, consolidated and individual, in order to be prepared by the board or managing body,

NIF	Name	Position

C.1.9 Explain, where possible, the mechanism established by the board or managing body in order to prevent the annual individual and consolidated financial statements

from being submitted to the General Shareholders Meeting or equivalent body with qualifications in the audit report.

According to art. 39, 3 in the Rules of the Board of Directors of the Company, the Board of Directors shall try to prepare the final financial statements so as to avoid qualifications from the auditor. However, whenever the Board thinks suitable to hold on to its own criterion, the board shall explain publicly the content and the extent of its discrepancy.

C.1.10 Does the Secretary to the Board of Directors or Managing body hold the status of Director?

YES <u>NO</u>

C.1.11 Specify, when possible, the mechanism established to preserve the independence of external auditors, financial analysts, bank of investments and qualification agencies.

According to article 13 of the Rules of the Board of Directors of the Company, the Audit Committee will be in charge of liaising with the external auditors in order to receive information on any issues that may jeopardize their independence and any other data related to the audit process, as well as any other communications provided for in the auditing legislation and technical auditing standards.

C.2. Commissions of the board or managing body

C.2.1 List the managing bodies:

Body name	Number of members	Functions
Audit Committee	1	As detailed in C.2.3

C.2.2 Specify all the commissions in the board or managing body and their members:

EXECUTIVE OR DELEGATE COMMISSION

NIF or CIF	Name or company name	Position

AUDIT COMMITTEE

NIF or CIF	Name or company name	Position
B-82158379	JOMACA 98, S.L.SECRETARY MEMBER	

COMMISSION FOR APPOINTMENTS AND REMUNERATION

NIF or CIF	Name or company name	Position

COMMISSION FOR STRATEGY AND INVESTMENTS

NIF or CIF	Name or company name	Position

COMMISSION__________

NIF or CIF	Name or company name	Position

C.2.3 Describe the organization and operating rules, as well as the responsibilities of each commission of the board or member of the managing body. When possible, describe the powers of the managing director.

Draft limit 4.000 characters (3.572)
AUDIT COMMITTEE (AC) Members: from 3 to 5 Directors, mostly non executive and at least one of them being independent. 4 year mandate, re-elected after 1 year of the end of the mandate. President elected among the non executives. All the Committee members shall be appointed, when possible, according to their knowledge and know-how in accounts and auditing. Their mandate shall expire at the same time as their status as board directors, or, whenever the Board of Directors so agrees (BoD). At least two annual meetings are held in order to review the periodical financial data required by the market authorities and to be approved and published by the BoD. Meetings shall be held whenever the President so considers, and he shall always call for a meeting when the BoD or himself require a report or the adoption of proposals by the BoD, and whenever a member of the BoD should ask. The AC shall have the following functions, among others: - Inform the Shareholders Meeting on the matters of its competence considered by the shareholders – Proposing to the BoD, before submitting to the Shareholders Meeting, the appointment of external auditors (conditions, mandate, revocation and renewal...) - Monitoring the internal systems of auditing; to watch over its independence and effectiveness – Review the accounts, watch over the compliance of the legal requirements and the suitable application of the accountancy principles, collaboration with the external and internal auditors – To know and monitor the elaboration process and integrity of the financial data, watching over the compliance of legal requirements and the application of accountancy criteria; to know and monitor the integrity and suitability of the internal control systems, and appointing or removing its heads – Revising the internal systems of control and risk management, in order to identify risks and disclaim them – Liaising the relation with the external auditors in order to receive information on questions that might imply a risk for their independence and in order to receive any other information related to the audit process, as well as any other information required by the audit regulations and its technical rules. - Monitoring the compliance of the audit contract,with the aim of reflecting clearly their report on the annual statements and the main content of the audit report, as well as evaluating the result of every

audit. - Revising the financial data that the Board has to submit periodically to the market and its monitoring bodies, making sure that the interim statements are prepared according to the same accounting criteria as the annual statements. - Exam the compliance of the Internal Rules of Conduct of the Rules of the BoD and the governance regulations, and submit the necessary proposals so as to improve. - Inform the BoD, prior to the adoption of resolutions on the following matters: a) creation or acquisition of holdings in entities with a special aim or headquartered off-shore, as well as other similar transactions and operations complex enough to impair the group transparency; b) related operations. MANAGING DIRECTOR: The BoD can appoint 1 or more Managing Directors, on whom all powers that are transferable according to the law and Company's Statutes can be totally or partially delegated.

C.2.4 Specify the number of meetings held by the audit committee during the year:

Number of Meetings	2

C.2.5 If there is a commission for appointments, specify if all its members are board directors or members of the external body of administration.

YES No

D RELATED AND INTRA GROUP OPERATIONS

D.1 List the operations among the entity/entities in the group, and the entity shareholders, cooperative holders, holders of ownership rights or any other equivalent rights.

NIF or CIF	Shareholder Name or Company Name	Type of relation	Brief description	Amount
B82158379	JOMACA 98, S.L.	CONTRACTUAL	ACCRUED INTERESTS ON LOAN GRANTED BY ZINKIA ENTERTAINMENT S.A.	31
B81092645	Roatan Comunicación S.L.	CONTRACTUAL	PROVISION OF SERVICES TO ZINKIA ENTERTAINMENT, S.A.	119

D.2 Specify the operations between the entity/entities in your group, and the directors or members of the managing body, or executive directors of the entity.

NIF or CIF	Shareholder Name or Company Name	Type of relation	Brief description	Amount

B82158379	JOMACA 98, S.L.	CONTRACTUAL	ACCRUED INTERESTS ON LOAN GRANTED BY ZINKIA ENTERTAINMENT S.A.	31

D.3 List the Intra-group operations.

The operations in force inside the Zinkia Group are as follows:

Distributions agreement between Cake Entertainment, Ltd. and ZINKIA ENTERTAINMENT, S.A. In order to distribute in television the audiovisual content of the latter in some territories in exchange for a fee or commission on the distributed content.

Reciprocal credit agreement between ZINKIA ENTERTAINMENT, S.A. and SONOCREW, S.L.U. Amounting to FOUR HUNDRED THOUSAND EUROS A YEAR (400.000 €/year).

D.4 Specify any mechanism established in order to detect, identify and solve the possible conflicts of interests between the entity and its group, its directors or members of the managing body, or executive directors.

There is no conflict of interest whatsoever, according to the Corporates Act.

To this aim, the Company has established the following mechanism in art. 29 of the Rules of the Board of Directors:

1. A Director must disclose the existence of any such conflict, direct or indirect, as it may have with the Company's Interest. The affected Director must refrain from participating in the resolutions or decisions regarding the transaction to which the conflict relates.

2. Directors also must disclose such direct or indirect interests as either they or the related persons referred to in article 231 of the Capital Companies Act may have in the capital of a company with a business that is the same as, or comparable or complementary to the business constituting the corporate purpose, and also will disclose the offices or functions they fill or perform therein.

3. The conflicts of interest contemplated in the preceding subsections will be reported in the notes to the financial statements.

E CONTROL AND RIKS SYSTEMS

E.1 Explain the scope of the entity's Control and Risks Systems.

The Company has systems to control the risks to which it is exposed, these systems are based on the identification and assessment of factors that may affect somehow the compliance of goals by the Company.

The activity of the Company is exposed to various financial risks: market risk, credit risk and liquidity risk. The program's overall risk management of the Company focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects on its financial return. The Company uses derivatives to hedge certain risks.

E.2 Identify the bodies responsible for the preparation and Implementation of the Risk Management System.

The management of such risk factors depends on the Financial Area of the Company, who identifies, evaluates and covers the financial risks according to the policies approved by the Board of Directors.The Board of Directors provides for guidelines of manage the labour risk, as well as some other specific areas as exchange rate risk, interest rate risk, cash-flow risk, use of derivates and non derivates and investment of the cash-flow excedents.

Also, the Audit Committee revises periodically the internal systems of control and risk management, so as to identify the main risks, and get them to be managed and disclaimed adequately

E.3 List the main risks that can affect the meeting of the business goals.

Draft limit 4.000 characters (3.976)

AUDIT VERSION ACCORDING TO FINANCIAL STATEMENTS

(3.324)

Market risk: 1. Exchange rate risk: The Company operates in the international scene and therefore it is exposed to this risk due to the foreign currency operations (i.e. USA Dollar and Sterling Pound). Risk arises from future commercial transactions, actives and receivables recognized and net investments in operations abroad. Currently the Company has no hedge against the foreign currency exchange fluctuations and it is exposed to fluctuations as a result of its business outside the euro environment, and as a result of the potential fluctuations in the currency denominations of its trade debt.

If the Company's turnover in other currencies grows, the Company's exposure to exchange rate fluctuations shall increase.

2. Price risk: The Company is not exposed to equity instrument price risk because of the investments held and classified on the balance sheet either as available for sale or carried at fair value through profit or loss. The Company is not exposed to commodity price risk.

3. Interest rate cash flow and fair value risk: Since the Company does not hold significant interest-bearing assets, the income and cash flows generated by operating activities are relatively protected from fluctuations in market interest rates.The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to the cash flow interest rate risk. Fixed interest rate borrowings expose the Company to fair value interest rate risks. The Company analyses its interest rate exposure in a dynamic manner. A simulation is performed of various scenarios, taking into account the refinancing, renewal of current positions, alternative financing and hedging. On the basis of these scenarios, the Company calculates the effect on results of a certain variation in the interest rate. For each simulation, the same variation in interest rates is used for all currencies. Scenarios are only simulated for liabilities representing the most significant interest-bearing positions.

Credit risk: Credit risk is managed by groups. The credit risk results from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions also wholesalers and retailers, including accounts receivable outstanding and committed transactions. The Company only does business with reputable banks and financial institutions.

Liquidity risk: Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, keeping funds available through sufficient committed credit facilities and having the ability to close out market positions.

Given the dynamic features of the underlying business, the Financial Area is aimed at keeping funding flexible by means of the availability of the credit lines agreed.

E.4 Identify if the entity counts on a tolerance degree to risk.

The Company count, In the exercise of their activity, and the preparation of budgets and business plans, on the existence of the risks identified, and attempts to manage the assets of the company with the due flexibility while applying very conservative criteria, so that if any potential risks that may occur, the Company would not be affected. Therefore, there is a certain level of tolerance for risk, although depending on the potential risk that might occur, the necessary mechanisms already planned to minimize any damage would be implemented.

E.5 Specify the actual risks faced during the year.

YES

In 2013 risks of credit and liquidity had to be faced.

Given the restricted access to financial markets and this impact on the Company's cash-flow, together with the tensions that were punctually communicated as Relevant Facts to the Market, and given the maturity to be faced by the Company during the last term in 2013 and the first term in 2014, the Company implemented during 2012 and 2013 relevant measures on expenses control and minoration, while trying to access alternative funding to financial entities, as i.e. By means of the Simple Debentures Issue, approved by the CNMV but that was not finally placed. In view of the results, the Company communicated the Mercantile courts of Madrid at 31st October 2013 the continuation of the negotiations with the main creditors, according to art. 5 Bis in the Insolvency Act. Anyhow, the economic situation and the Company's equity situation, led the Board of Directors, once it was deemed impossible to reach an agreement with some of the main creditor, to file for the voluntary arrangement with creditors, so on 26th February 2014, the Company submitted a declaration of voluntary arrangement with Creditors before the Mercantile Courts of Madrid. Currently, the Company is negotiating an Arrangement with its Creditors.

In broad terms, and regarding the ensemble of risks faced during the year as hereby described, the Board of Directors, acting according to its powers, has monitored and control such risks, implementing the due internal control and information systems. As a means to enhance this, the Company has counted on the monitoring and review functions of the Audit Committee, and on the management activities implemented by the head of the different affected areas.

E.6 Explain the response and monitoring regarding the main risks for the entity.

The Board of Directors provides for some guidelines in order to manage overall risk, and to manage particular risks such as exchange rate risk interest rate risk, liquidity risk, use of derivates and non derivates and investment of cash-flow superlative.

According to art. 5.1.vii of the Rules of the Board of Directors, the Board of Directors approves the policy of risk control and management, and also monitors periodically the internal systems of information and control.

Also, according to the art. 13.2.c of the Rules of the Board of Directors, the Audit Committee reviews periodically the internal systems of risk control and management, so as to identify the main risks and afford their disclosure and due management.

F INTERNAL SYSTEMS FOR THE RISK CONTROL AND MANAGEMENT REGARDING THE PROCESS OF FINANCIAL DATA ISSUE (SCIIF)

Describe your entity's mechanisms part of the systems of risk control and management regarding the process of financial data issue (SCIIF)

F.1 Entity's control environment

Report on the main features of at least:

F.1.1. Bodies and powers responsible for: (i) the creation and maintenance of an adequate and effective SCIIF; (ii) its implementation; y (iii) its monitoring.

The Board of Directors is the highest responsible for the creation and maintaining of an adequate and effective SCIIF, both directly and through the Audit Committee.

According to art. 13,2 of the Rules of the Board of Directors, the Audit Committee will exercise the following basic functions related to the systems of internal control and information:

- Monitoring the effectiveness of the internal control of the Company, the internal audit, if any, and the risk management systems, and discussing significant weaknesses in the internal control system detected in the course of the audit with the auditors or audit firms.
- Supervising the process of preparation and presentation of regulated financial information related to the Company and, if applicable, the group.
- Establishing the appropriate relationships with the auditors or audit firms to receive information regarding such questions as may compromise their independence, for review by the Committee, and any others related to the process of auditing accounts, and such other communications as may be contemplated in the legislation regarding auditing of accounts and audit standards. In any event, annually it must receive written confirmation from the auditors or audit firms of their independence as regards the entity or directly or indirectly related entities, and information on additional services of any kind provided to these entities by the aforesaid auditors or firms, or by the persons or entities related thereto in accordance with the provisions of Account Auditing Law 1/2011.
- Annually, prior to the issue of the audit report, issuing a report stating an opinion regarding the independence of the auditors or audit firms. This report must address the provision of any additional services referred to in the preceding section.
- Examining compliance with the Internal Code of Conduct, these Regulations and, in general, the company's governance rules, and making the proposals necessary for improvement.

Regarding the supervision of the process of preparation and presentation of regulated financial information related to the Company and, if applicable, the group, the Audit Head is aimed at watching over the internal systems of information and control, as well as at evaluating the internal control by the external auditor, and so:

- The Head is responsible for the conception, Implementation and operation of the SCIIF. Such function is executed through the Financial Head, who is responsible for the elaboration of the financial statements and for establishing and maintaining the due primary control that operate over the transactions and other operations in the process of the data that are the source of such statements. Checks on the adequacy and consistency of the internal systems of control and revising the appointment and replacement of the staff responsible for it as well as on the elaboration process of the accountancy principles and policies.

- Knowing and checking on the integrity of the elaboration process and presentation of the financial data related to the Company and, when possible, the Group, by revising the degree of compliance of legal requirements, the due delimitation of the consolidation environment and the right application of the accountancy criteria.
- Revising periodically the effectiveness of the internal control of the Company, and the risk management systems, so as to have the main risks identified, managed and duly disclaimed, while also discussing significant weaknesses in the internal control system detected in the course of the audit with the auditors or audit firms.
- Watching over the independence and effectivity of the internal control functions and the legal compliance.

F.1.2. If there are, specifically regarding the process of financial information, the following elements:

a • Departments and/or mechanisms in charge of: (i) the conception and revision of the organization structure; (ii) the clear definition of guidelines regarding responsibility and authority, with a suitable distribution of tasks and functions; and (iii) the creation of procedures enough as to proceed to the right dissemination within the entity.

The conception and review of the organizational structure and the definition of the lines of responsibility and authority are the responsibility of the Board of Directors.

The implementation of such a structure is carried out by the Managing Director who will determine the appropriate distribution of tasks and functions.

The CEO will also ensure that there is an adequate segregation of duties and that the lines of authority and responsibility are perfectly defined.

The dissemination of the organizational structure to the whole entity is performed periodically, either through electronic means and through regular meetings with the staff of the entity.

b • Code of conduct, body of approval, degree of dissemination and information, principles and values included (pointing at specific mentions regarding the recording of operation and financial data process) body in charge of analysing lack of compliance and proposing correcting responses and penalties.

The Company has a Code of Conduct in the Securities Market approved by the Board of Directors at 9th June 2009, applicable to Directors, Executive Directors, external advisers and everyone providing services for the Company in relation to the market, and in particular, its financial area.

Said Code determines the behaviour criteria that its recipients shall follow in operations executed on these markets, with the aim of contributing to their transparency and to protecting investors. The principles that inspire the standards herein are those of impartiality, good faith, of general interests prevailing above one's own, care and diligence in making use information and, when acting on markets, rules of behaviour provided by the guidelines employees must observe in order to avoid unethical conduct..

The Management shall be in charge of watching over its compliance, analysing the lack of compliance and proposing correcting actions and penalties, except when any member of the Government Bodies are Involved, in which case, the Board of Directors shall intervene,

c • Channel that affords reporting to the Audit Committee any financial and accounting irregularities, as well as breaches of the code of conduct and malpractice within the organization, reporting also on the confidentiality of such information.

The entity is considering the implementation of a channel to report information to the Audit Committee regarding the financial and accountancy breaches, and granting confidentiality.

d • Periodical training and updating programmes for the staff involved int he preparation and revision of the financial data, as well as on the valuation of the SCIIF, covering at least accountancy and audit rules, internal control and risk management.

The staff in the financial area in charge of the processing and revision of the financial data, must have the updated knowledge to be qualified in order to act according to their powers and functions. To this aim, the staff is selected paying special attention to their training in accountancy, audit and risk management, although if need be, additional training would be provided in such subject

The Financial Head, in coordination with the Head of Human Resources, determines the training plans, both internal and external, suitable in order to grant the ongoing training and competence of all the staff in the Area.

F.2 Risk evaluation in the process of financial data.
Report at least on:

F.2.1. The main features of the process of identification of risks, including fraud and error, regarding:

A • The actual procedure and its recording.

The procedure of risk identification in the financial data is done periodically by the Financial Head, but such procedure is still unrecorded.

The entity is considering the implementation of the recording procedures that shall afford the communication to the Audit Committee of such risk identification, including error and fraud, and establishing the different lines of action as a response to such identification, as well as the corresponding prevention, identification and regularization processes

This process is the fundamental base of any adequate internal control system, so it involves the participation of the area in charge of processing the financial data, and the Risk Control of the Company, the Financial Head, the Management, as supervisors and responsible for their review, and the Board of Directors as highest body responsible for the internal control of the financial data.

B • Whether the procedure fully covers the aims of financial information (existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights

and obligations), whether and how often it is updated.

The scope of the process of identification of risks in the financial information ranges from occurrence, valuation to presentation and breakdown.

The Financial Head identifies the possibility of errors in every risk source, by applying different measures of identification according to the source or origin.

Automatic identification means are used to alert phases of occurrence, recording and measurement using logical security measures on financial information systems, and automatic tabulated on the listed information.

Technological systems ensure a correct process of the activities associated with a large volume of information, transactions and computational complexity.

The breakdown of the financial information and presentation are also ensured by the procedures supported on technical applications in the preparation of financial statements, regarding both their logical security and accuracy of their calculations.

The process of identifying the risks of financial information will be updated through the procedure that the entity is considering to record with regards the identification and control of risks by establishing security policies in the financial reporting and creating a handbook of accounting policies, all to be approved by the Board of Directors, and later updated to the frequency decided.

C • The existence of a process of identifying the scope of consolidation, taking into account, among other things, the possible existence of complex corporate structures, or special purpose entities.

The scope of consolidation is determined by the criteria set in the International Standards of Financial Reporting and reviewed according to policy changes by the Finance Head of the Group.

D • Whether the procedure takes into account the effects of other types of risk (operational, technological, financial, legal, repetitional, environmental, etc..) to the extent that they affect the financial statements.

The entity shall consider, in addition to the controls on the risks identified in the E3 section of the Annual Corporate Governance Report, as part of the process of risk identification, the following risks:

- **Accounting risks:**These are risks affecting the reliability of financial reporting and the compliance with the applicable accounting standards
- **Operational risks:** They represent the chance of suffering losses due to inadequate technical and human processes, or due to their failure, and also due to the lack of resources, training, or necessary tools in the decision-making.
- **Technological risks:**They are due to failure in the systems or to errors in the processes relying on them. Apart form the errors in the software and systems,

there are other indirect technological risks that might have serious consequences such as telecommunication failures, external attacks or malaware.

- **Compliance risks:** Derived from Internal activities that might cause a negative perception in our groups of interest (clients, Public Administration, or local environment).
- **Reputation risks:**They are produced as a result of external factors and might cause modifications in the Internal control of the financial information.

E •Managing body monitoring the process.

The bodies responsible for overseeing the process of identifying risks of financial Information are the Financial Department, the Management and the Audit Committee, and of course, the Board of Directors as ultimate responsible body for the financial information of the Company.

The Financial Head:

- supervises the recording, valuation, breakdown and presentation of the financial information and the right estimate of the forecasts.
- identifies and checks the right recording in the financial information of the risks deriving from the credit activity, market and treasury, as well as those that can be caused by operational risk, and
- supervises the right application of rules together with the Legal Head of the Company, avoiding errors of application,. or lack of knowledge leading to errors in the financial information.

The Management Committee shall validate the right presentation and breakdown of the financial data as well as the estimates and projections.

The Audit Committee is in charge of controlling and monitoring the whole process of risk identification int he financial data.

The Board of Directors, as maximum government body in the Company, shall approve of the policies regarding the financial data security and the accountancy policy handbooks.

F.3 Control activities

Report, by pointing its main features, in case the Company has at least:

F.3.1. Procedures for reviewing and authorizing financial information and description of ICFR, to be published in the securities markets, stating who is responsible for it, as well as for the documentation describing the flow of activities and controls (including those relating to fraud risk) in the different types of transactions that may materially affect the financial statements, including the process accounting closure and the specific review of relevant estimates, valuations and projections.

According to art. 5 of the Rules of the Board of Directors, such Board as the highest decision-making authority of the Company is responsible for the preparation of the annual accounts, the management report and the proposal for allocation of the Company's profits, as well as the consolidated accounts and management report: The estimates on which the most relevant items of the financial statements or the different projections are based, are revised by the Management and the Board of Directors.

This review is considered a control activity, prior to the issuance of financial information, and is relevant to the extent that it ensures that the statements and projections used are aligned with those made by the managing staff and have been reviewed by them.

The Audit Committee is responsible for reviewing the financial information.

In order to ensure the accuracy of the information, individual controls are established in different areas on the transactions affecting the financial reporting.

All the financial information is captured through the transactions in the computer applications, whether departmental or at office level, so that the accuracy, authenticity, assessment and recording of information is assured.

Regarding the control procedures of transactions materially affect the financial statements, its objective is to ensure proper registration, valuation, presentation and disclosure thereof in the financial information.

As to the control procedures on the transactions materially affecting the financial statements, their aim is to ensure their adequate recording, valuation, presentation and breakdown in the financial report.

There are two type of controls:

- Those implemented on the technological platforms supporting the systems of financial information.
- Those implemented from the Financial Area in order to ensure the accuracy and integrity of the transactions.

The Financial Head is responsible for revising the control procedures, by paying special attentions to a suitable segregation of functions.

F.3.2. Policies and procedures of internal control over information systems (including, access security, change control, operation thereof, business continuity and segregation of duties) supporting the relevant processes of the organization in relation to the process and publishing of financial information.

The entity has established a system of internal control, which are expected to be recorded in the relevant documents for Security Policy and Control over financial reporting, based on a set of guidelines, obligations, security measures and technological matters relating to financial reporting, authorization levels in accounting applications, and specific controls to detect possible incidents.

The general principles of information security are focused on maintaining and ensuring the security of the information processed, so that the service, while ensuring optimal levels of confidentiality, integrity and continuity, also ensure business continuity, harm minimization caused by a disaster, a quick response to any incidents, and the maintenance of a level of quality in the service activities and critical processes.

The Finance Department is responsible for monitoring the policy and its updates.

The HR Management and Technology Head will be responsible for the implementation and monitoring of this policy, that shall be submitted to the Board of Directors approval.

F.3.3. Policies and internal control procedures for monitoring outsourced activities, as well as the appraisal, calculation or valuation commissioned from independent experts, which may materially affect the financial statements.

The entity does not have a policy of outsourcing related to financial information services.

If services related to financial information have to be outsourced, not only economic criteria are taken into consideration but also experience, quality and prestige of the various providers of these services are key in the decision.

Since the outsourced services are audit and consulting (including tax consultancy), such services are appointed by the Board of Directors, given their cyclical nature the outsourcing related financial information will be authorized by the Financial Head.

F.4 Information and communication
Report, by pointing at the main features, if there is any such:

F.4.1. Specific function in charge of defining, updating the accountancy policies (area of accountancy policies) and solving the questions or conflicts raised from their interpretation, while keeping a fluent communication with those people responsible for the operations in the organization, as well as a handbook of accountancy policies to be updated and disseminated to all the operating units in the Company.

The Financial Area is responsible for the definition and updating of the accountancy policies, and for their communication to the staff related to the process of financial data, and the Board of Directors is the body responsible for approving such policies.

Such policies are updated to legal changes whenever these happen, and they are reviewed at least once a year.

The Financial Area is responsible for solving the questions and conflicts of interpretation regarding the accountancy policies.

F.4.2. Mechanisms for gathering and preparing the financial information in standard formats, to be applied and used by all units of the entity or the group, which support the main financial statements and notes, as well as information concerning ICFR.

Accountancy functions are focused on the application of General Accountancy, that is only controlled and managed by the Financial Area, and which integrates the accountancy of the whole entity.

The system has the following features:

- multi-currency
- grants access to information depending on the authorised levels (user-transaction and operating centre-account).
- Affords the recording and validation of statements in real time.
- Different type of accounts are identified within the system.

- Affords interfaces with operating application that supply movements reflecting the accounting event produced.
- Authorised users can maintain the fixed parameters of the system through the screen.
- Information show different levels of aggregation.

F.5. Monitoring of the operation system

Report, pointing out the main features, of at least:

F.5.1. The ICFR monitoring activities conducted by the audit committee and indicate whether the entity has an internal audit function supporting the committee in its monitoring of the internal control system, including ICFR.The scope of the assessment of ICFR shall be reported as well as if the entity has an action plan detailing any corrective measures, and whether it has considered its impact on financial reporting.

The Rules of the Board of Directors establish the powers of the Audit Committee in relation to information systems and internal control, testing effectiveness, adequacy and integrity of internal control systems, as well as understanding and monitoring the integrity and the process and presentation of financial information, monitoring the systems of internal control periodically and ensuring the independence and monitoring the effectiveness of the internal audit functions.

The Financial Head depends from the Director General and in functional terms depends from the Audit Committee, when supporting audit and managing the daily control and supervision of the system of internal control.

F.5.2. If you have a discussion procedure by which the auditor (in accordance with the provisions of the Technical Standards on Auditing), the internal audit function and other experts can report to senior management and the Audit Committee or Company management on significant internal control weaknesses identified during the review process of the annual accounts or other. Also report on whether you have a plan of action to correct or mitigate the weaknesses observed.

The role of internal control performed by the Finance Area, within the works included in the Annual Plan of activity, reports to the Management (through the Management Committee) and the Audit Committee (in sessions held periodically) on the results obtained in the evaluation of internal control of financial.

On the other hand, the Head also communicates the significant internal control weaknesses that may be identified in other processes made during the year.

In these cases, action plans are developed and monitored in order to mitigate the aforementioned deficiencies observed,

Regarding the Auditor, and according to the procedure established he is to attend at meetings of the Audit Committee of the company, in order to report on the result of the work done and, where appropriate, to disclaim the details of the weaknesses of internal control observed and the action plans implemented to remedy these weaknesses.

F.6 Other relevant data

According to the Company, there is no other relevant data that has not been communicated to the market or included in this paper.

F.7 Report of the external audit

Report on:

F.7.1. Whether the SCIIF data sent to the markets has been subject to revision by the external auditor, in which case the Company should include the corresponding report as Annex. Otherwise, the reasons should be disclaimed.

The entity has not submitted its system of internal controls on the issue of financial data to the review of an external expert, given that such controls are made immediately without being subject to specific procedures of documentation and approval,and since, to this date, there are no homogenous processes which will be implemented once the final procedures are documented and approved. However, the auditors of the Group review, according to the applicable audit regulations is Spain, the internal control procedures as part of their annual review.

Notwithstanding the aforementioned, this paper is sent to the external auditor as part of the Annual Corporate Governance Report, which is part of the management report, with the aim of adding it to the audit on the corresponding Annual Financial Statements for 2013.

G. OTHER RELEVANT DATA

If there is a relevant aspect relating corporate governance in the company or companies the group that is not recorded in the other sections of this report, but it is deemed necessary to include hereby in order to collect more complete and reasoned information on the structure and governance practices in the company or its group, briefly explain.

This section also may include any other information, clarification or detail related to previous sections of the report to the extent that they are relevant and not repetitive.

Specifically, indicate whether the entity is it subject to corporate governance rules other than the Spanish legislation and, where applicable, include the information required and that is different from that specified in this report.

The entity may also indicate whether it has voluntarily adhered to other ethical principles or codes of good practice, be them international, sectorial or other. Where appropriate, the entity shall identify the relevant code and the date of adhesion.

As a consequence of data under C.1.2. y C.2.1. y C.2.2., we confirm that the information included in such item is in force at 31st December 2013, which is complemented with the following information:

Angel-Martin Ortiz Abogados, S.L. was appointed Director by co-optation representing the shareholder Mr. Miguel Valladares by decision of the Board of Directors at the meeting held at 19th December 2012, and ratified and appointed by resolution of the General Shareholders Meeting held at 27th June 2013.

At 10th October 2013, Mr. Juan José Güemes communicates the Board of Directors his resignation as member of the Audit Committee and the Board of Directors of the Company, creating therefore a vacancy in both positions.

At 10th December 2013, Mr. Alberto Delgado Gavela communicates the Board of Directors his resignation as member of the Audit Committee of the Company, creating therefore a vacant in such Committee.

To this aim, the Company is doing everything necessary in order to provide for such vacancies in the Audit Committee.

After year-end, at 11th February 2014, the Extraordinary General Shareholders Meeting approves by majority the resignations of Mr.. Alberto Delgado Gavela and Mr. Angel-Martin Ortiz Abogados, S.L. as members of the Board of Administration, therefore two vacancies were created in the Board of Directors.

All these changes were communicated to the CNMV and MAB by means of the corresponding Relevant Facts the same day the decision was learnt by the Company.

Also, it has to be detailed that the information hereby provided under C.1.7., wherein it is explained that there is no maximum limitation for the mandate in the Board of Directors, according to art. 17 of the Company's Statutes and art. 20 of the Rules of the Board of Directors, Directors shall hold their positions for five years, and they can be re-elected. In its turn art. 21,1 of the Rules of the Board of Directors of the Company, independent directors shall cease in their positions after having held their position for an ininterrupter period of 12 years, from the time the shares of the Company are traded on the MAB.

And last, it should be noted that as to the information provided for under C.1.6. there are no senior managers contracts in the Company, according to the interpretation of the CNMV, and in order to obtain a greater transparency, just like previous years, all the information is hereby included regarding those directors of the Company who have been dependant on the Managing Director at some time in 2013, notwithstanding the fact that the appointment of a Director General has diminished considerably the first level reports, which results in the decrease of the number of people dependant directly form the Managing Director.

Last, the entity has not adhered other ethical or good practices codes, be they international,, national, sectorial or other.

This annual corporate governance report was approved by the board or governing body of the entity, in its meeting held on 31st MARCH 2014. Indicate directors or board members who voted against or abstained on connection with the adoption of this report.