GARRIDO AUDITORES

ZINKIA ENTERTAINMENT, S.A.
AND SUBSIDIARIES

Audit Report,
Consolidated Financial Statements
and Consolidated Management Report
at December 31, 2011

This is a free translation of the original audit report, which was prepared in Spanish. In all matters of interpretation, information or opinions, the original version takes precedence over this translation.

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, 2011, 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. The parent company's Managers are responsible for the preparation of these consolidated financial statements in accordance with the financial reporting framework applicable to the Group (which is identified in Note 2 of the accompanying notes to the consolidated financial statements) and, in particular, with the accounting principles and standards contained in said framework. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole, based on the work conducted in accordance with legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the consolidated financial statements and an assessment of whether their overall presentation, the accounting principles and standards used and the estimates made are in accordance with the applicable financial reporting framework.

2. In our opinion, the accompanying consolidated financial statements for 2011 present fairly, in all material respects, the consolidated financial position of ZINKIA ENTERTAINMENT, S.A. and subsidiaries at December 31, 2011 and the consolidated results of its operations and consolidated cash flows for the year then ended, in conformity with the applicable financial reporting framework and, in particular, with the accounting principles and standards contained in said framework.

3. The accompanying Consolidated Management Report for 2011 contains the explanations that the Parent Company's Managers consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated financial statements. We have verified that the accounting information contained in the Consolidated Management Report is in agreement with that of the consolidated financial statements for 2011. Our work as auditors is limited to checking the Consolidated Management Report in accordance with the scope mentioned in this paragraph and it does not include a review of information other than that obtained from the accounting records of ZINKIA ENTERTAINMENT, S.A. and subsidiaries.

Garrido Auditores, S.L.
(Registered at Official Auditor Register with no. S1838)

Julio Cesar Calvo
Partner-Auditor
April 27, 2012

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

AUDIT REPORT, CONSOLIDATED FINANCIAL STATEMENTS, CONSOLIDATED MANAGEMENT REPORT AND ANUAL REPORT ON CORPORATE GOVERNANCE FOR YEAR ENDED DECEMBER 31st, 2011

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ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER, 31st 2011 (In EUR)

Euro

ASSETS	Note	12/31/2011	12/31/2010
Intangible assets	7	9,849,888	8,664,851
Goodwill	7, 1	866,929	-
Other intangible assets	7, 2	8,982,959	8,664,851
Property, plant and equipment	8	136,497	107,695
Non-current financial liabilities	9	32,270	84,770
Deferred tax assets	16	4,589,657	3,929,006
Non-current trade and other receivables	10	411,644	100,037
NON-CURRENT ASSETS		**15,019,956**	**12,886,359**
Trade and other receivables	10	3,246,535	3,483,057
Corporate income tax assets		6,363	14,092
Other tax receivables	16	54,802	184,385
Current financial assets	9, 18	651,090	560,477
Cash and cash equivalents	11	489,590	409,567
Other current assets	16	31,010	44,567
CURRENT ASSETS	16	**4,479,390**	**4,696,145**
CURRENT ASSETS		**19,499,346**	**17,582,504**

EQUITY AND LIABILITIES	Note	12/31/2011	12/31/2010
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	1,126,380	1,145,782
Treasury shares	12	(950,560)	(347,303)
Translation differences	12	(1,255)	(477)
Retained earnings	12	(3,357,604)	(1,091,225)
Profit attributable to the equity holders of the parent		**(84,476)**	**(2,266,379)**
TOTAL EQUITY OF THE PARENT		**8,749,074**	**9,456,988**
Profit attributable to minority interest		107,733	-
Minority interest	12	121,863	-
EQUITY		**8,978,670**	**9,456,988**
Deferred income	13	105,542	79,748
Non-current financial liabilities	14	4,867,597	3,672,294
Deferred tax liabilities	16	51,200	39,675
NON-CURRENT LIABILITIES		**5,024,338**	**3,791,718**
Current financial liabilities	14	2,320,310	2,459,121
Current trade and other payable	17	2,450,935	1,533,403
Corporate income tax payable	16	82,149	10,510
Other tax payable	16	642,944	330,764
CURRENT LIABILITIES		**5,496,338**	**4,333,798**
TOTAL EQUITY AND LIABILITIES		**19,499,346**	**17,582,504**

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT AT DECEMBER, 31st 2011 (In EUR)

Euro	Note	12/31/2011	12/31/2010
Revenue from operations	19	7,788,789	3,993,662
Other operating income	19	5,432,936	1,993,678
Total Revenue		**13,221,726**	**5,987,340**
Cost of goods sold	19	(2,512,550)	(248,955)
Cost of employees	19	(3,724,928)	(3,334,395)
Other operating expenses	19	(5,300,160)	(2,914,661)
Amortizations and depreciations	19	(1,784,932)	(1,724,994)
Total expenses		(13,322,570)	(8,223,005)
Operating income		**(100,845)**	**(2,235,666)**
Net financial expense	19	(769,739)	(259,475)
Impairment and gain/losses on sales of assets	7, 8	415,889	(431,802)
Profit before tax		**(454,695)**	**(2,926,942)**
Corporate income tax	16	477,951	660,563
Profit for the period		**23,256**	**(2,266,379)**
Profit attributable to minority interest		107,733	-
Profit attributable to the equity holders of the parent		**(84,477)**	**(2,266,379)**
Basic and diluted earnings per share	24	0.02	(0.06)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AT DECEMBER, 31st 2011 (In EUR)

Euro	12/31/2011		12/31/2010	
	Equity holders of the parent	Minority interest	Equity holders of the parent	Minority interest
Profit (loss) for the period	(84,477)	107,733	(2,266,379)	-
Income and expenses recognized directly in equity	27,007	-	29,604	-
Reclassification included in the income statement		-		-
Income tax impact	-	-	-	-
TOTAL COMPREHENSIVE INCOME RECOGNIZED	**(57,469)**	**107,733**	**(2,236,775)**	**-**

B) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT DECEMBER, 31st 2011 (in EUR)

Euro

	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, 12.31.2010	**2,445,677**	**9,570,913**	**1,175,649**	**3,917**	**(477)**	**(347,303)**	**(1,091,225)**	**(2,266,379)**	**(33,784)**	**9,456,988**	**-**	**9,456,988**
total comprehensive income recognized								- **84,476**	**27,786**	- **56,691**	**107,733**	**51,042**
Transactions with shareholders	**-**	**-**	**(24,126)**	**-**		**(603,257)**	**-**	**-**	**-**	**(627,383)**		**(627,383)**
Capital increases												-
Trading in treasury shares			(24,126)			(603,257)				(627,383)		(627,383)
Other movements in equity				**(23,062)**	**(778)**		**(2,266,379)**	**2,266,379**		**(23,840)**	**121,863**	**98,023**
FINANCIAL POSITION AT DECEMBER 12.31,2011	**2,445,677**	**9,570,913**	**1,151,523**	**(19,144)**	**(1,255)**	**(950,560)**	**(3,357,604)**	- **84,476**	**(5,999)**	**8,749,074**	**229,595**	**8,978,670**

Valores en euros

	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, 12.31.2009	**2,445,677**	**9,570,913**	**1,189,150**	**2,016**		**(319,737)**		**(1,091,225)**	**(63,389)**	**11,733,406**		**11,733,406**
total comprehensive income recognized								**(2,266,379)**	**29,604**	**(2,236,775)**		**(2,236,775)**
Transactions with shareholders	**-**	**-**	- **13,501**	**-**	**-**	- **27,567**	**-**	**-**	**-**	- **41,068**		- **41,068**
Capital increases												-
Trading in treasury shares			- 13,501			- 27,567				- 41,068		- 41,068
Other movements in equity				**1,901**	**(477)**		**(1,091,225)**	**1,091,225**		**1,424**		**1,424**
FINANCIAL POSITION AT DECEMBER 12.31.2010	**2,445,677**	**9,570,913**	**1,175,649**	**3,917**	**(477)**	**(347,304)**	**(1,091,225)**	**(2,266,379)**	**(33,784)**	**9,456,988**		**9,456,988**

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT AT DECEMBER, 31st 2011 (In EUR)

	12/31/2011	12/31/2010
A) CASH FLOWS FROM FROM OPERATING ACTIVITIES		
1. Profit before tax	**(454,695)**	**(2,926,942)**
2. Non cash adjustments for	**2,123,173**	**2,416,270**
a) Depreciation and amortisation charge	1,784,932	1,724,994
b) Non-current assets provisions	(418,032)	418,119
c) Results in non-current assets operations	(3,230)	(531)
d) Financial income	(24,811)	(20,219)
e) Financial costs	801,473	273,369
f) Exchange differences	(6,923)	6,324
g) Allocation of grants	(15,609)	-
h) Other income and costs	5,373	14,214
3. Changes in working capital	**1,137,502**	**708,574**
a) Trade and other receivables	2,042,276	(472,770)
b) Other current assets	19,774	(35,473)
c) Trade and other payables	(612,941)	1,301,497
d) Other non-current assets and liabilities	(311,607)	(84,680)
4.- Other cash flows from operating activities	**(657,103)**	**(396,562)**
a) Interest paid	(587,357)	(278,758)
b) Dividends received	9	9
c) Interest collect	(109,508)	(77,976)
d) Collections (payments) for corporate income tax	4,123	
e) Other payments (collections)	35,630	(39,837)
5.- Net cash flows from operating activities (1+2+3+4)	**2,148,877**	**(198,660)**
B) CASH FLOW FROM INVESTING ACTIVITIES		
6- Investments payments (-)	**6,445,733**	**2,294,904**
a) Investments in associates	50,000	45,000
b) Investments in companies,net of cash and equivalents acquired	442,356	4,807
c) Investments in intangible assets	1,637,093	2,027,266
d) Investments in property, plant and equipment	26,719	55,956
e) Investments in other financial assets	4,289,565	161,875
7. Investments proceeds (+)	**4,310,729**	**1,817,176**
a) Proceeds on financial investments in associates		350,000
b) Proceeds on other financial invesments	4,310,729	1,467,176
8. Net cash flows from investing activities (7-6)	**(2,135,004)**	**(477,728)**
C) CASH FLOWS FROM FINANCING ACTIVITIES		
9. Equity	**(627,383)**	**(41,068)**
a) Treasury shares acquisition	(834,664)	(223,177)
b) Proceeds from disposals of treasury shares	207,281	182,109
10. Finance liabilities	**686,611**	**749,307**
a) Issue	3,111,779	2,954,086
1. Proceeds from issue of debentures and bonds		1,570,906
2. Proceeds from loans and borrowings	216,341	1,112,332
3. Proceeds from other liabilities	2,895,439	270,848
b) Repayments	2,425,169	2,204,779
1. Repayments of loans and borrowings	1,638,322	1,926,646
2. Repayments of other liabilities	786,847	278,133
11. Dividends payments	-	-
a) Dividends	-	-
12. Net cash flows from financing activities (9+10+11)	**59,228**	**708,239**
D) EFFECT ON EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS	6,923	(6,324)
E) NET INCREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)	**80,023**	**25,527**
Cash and cash equivalents at January, 1st	409,567	384,040
Cash and cash equivalents at December, 31st	489,590	409,567

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER, 31st 2011
(In EUR)

1. General information and 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 points 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 the international level.

Jomaca 98, S.L. holds a 71.56% Stake in Zinkia Entertainment, S.A.

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

				12/31/2011				12/31/2010			
				% 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	Sociedad limitada	Music publisher	No	100,00%		100,00%		100,00%		100,00%	
Producciones y Licencias Plaza de España, S.A. de C.V. Av Presidente Massaryk 61, piso 2, México D.F.	Sociedad limitada de capital variable	Explotation and management of audiovisual rights	No	100,00%		100,00%		100,00%		100,00%	
Cake Entertainment, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	No	51,00%		51,00%		0,00%		0,00%	
Cake Distribution, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	No	0,00%	51,00%	0,00%	51,00%	0,00%	0,00%	0,00%	0,00%
HLT Productions Bv Van der Helstlaan 48. 1213 CE Hilversum. The Netherlands	Private limited company	Explotation and management of audiovisual rights	No	0,00%	51,00%	0,00%	51,00%	0,00%	0,00%	0,00%	0,00%

All subsidiaries have been consolidated using the full consolidation method.

The scope of consolidation underwent the following changes in 2010 and 2011:

- The company Producciones y Licencias Plaza de España, S.A. de C.V. was founded on August, 9th 2010, a company that is jointly controlled by Zinkia Entertainment, S.A. and Sonocrew, S.L.
- A 51% stake in the company Cake Entertainment, Ltd. was acquired on June, 2nd 2011.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

These Consolidated Financial Statements of the Zinkia Entertainment Group for year 2011 were formulated:

- By the directors of the parent company, Zinkia Entertainment, S.A., at Board of Directors' meeting held on March, 22nd 2011.

- Pursuant to the terms of International Accounting Standard no. 27 on financial reporting and 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 December, 31st 2011 and the results of its operations and the changes in the Group's consolidated equity during the period ended on the said date.

- 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 policies applied

The Group's Consolidated Financial Statements at December, 31st 2011 were prepared in accordance with International Financial Reporting Standards.

This is the first time that the Group has prepared Consolidated Financial Statements according to

IFRS.

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.

Due to the negligible relative importance of the companies Sonocrew, S.L. and Producciones y Licencias Plaza de España, S.A. de C.V., the Company had not filed Consolidated Financial Statements prior to these. The acquisition of 51% of the company Cake Entertainment, Ltd. to the first-time application of the International Financial Reporting Standards and current interpretations of the IASB (International Accounting Standards Board) and IFRIC (International Financial Reporting Interpretations Committee) and adopted by the European Union for implementation.

c) Responsibility for information and estimates made

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

The directors of the parent company 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 changes, the funding of the depreciation allowance is 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. If there are reasonable doubts regarding the ability to recover the tax credits, the pertinent corrections are made.

- Corporate tax expense:

  According to IAS 34, 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 Financial Statements include certain adjustments 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 consolidated financial statements are presented in euro, which is the parent Company's functional and presentation currency.

The 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 Consolidated Income Statement are converted at the average exchange rate for the year. All resulting exchange differences are recognised as a separate component of equity.

f) The going concern principle- Negative Working Capital

The consolidated statement of financial position shows a negative Working Capital of 1.4 million euro as at December, 31st 2011, caused mainly by the attention and maturity of the debt of the Group and its investments.

The Group consider these circumstances as transitory and foresee, according with provided for in the Business Plan announced to the market.

In order to solve the shortage of financial resources that may be revealed during the year 2012, the Group is discussing during the present months various options for generating additional liquidity, while negotiations are held with potential financial funders, including current.

The parent Company's directors believe that these actions, which will take effect during the year 2012, will lead to the necessary financial resources to meet all the commitments of the Group.

3. Accounting principles and policies and measurement criteria applied

The following accounting principles and measurement criteria were used to formulate these Consolidated Financial Statements of the Zinkia Entertainment Group for year 2011 pursuant to the terms of the International Financial Reporting Standards adopted by the European Union and in force in 2011:

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 cost and/or cost of production and are later stated at cost less accumulated depreciation and/or any losses due to 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.

Other development expenses are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent years. Development costs with a finite useful life that have been capitalised are amortised on a straight-line basis over the period of the project's expected benefit, not exceeding five years.

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

If the circumstances favouring the project that permitted the capitalisation of the development costs change, the unamortized 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. 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 them 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**
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 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.

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 Group is lessee – Finance leases

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 is the lessor – 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.

- 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.

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 is 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 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.

3.13 Deferred income

The heading of the consolidated statement of financial position covers grants received by the Group.

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.

The Group 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 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 customer type, transaction type and specific terms.

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 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 carryforwards and tax deducted generated but not yet applied.

Deferred tax liabilities are recognised for all temporary tax differences unless they arose out of the initital recognition of goodwill or the initial recognition of other assets and liabilities (except business combinations) from a transaction that has no effect on either the tax results or the book results.

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 carryforwards 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.

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 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.

a) 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.

In order to manage the exchange risk that arises on future commercial transactions and recognised assets and liabilities, the Company uses forwards that are negotiated by the Treasury Department. Foreign exchange risk arises when the future commercial transactions and recognised assets and liabilities are denominated in a currency other than the Group's functional currency.

(ii) *Price risk*

The Group is not exposed to equity instrument price risk because of the investments held and classified on the statement of financial position 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*

As the Group has no significant interest-bearing assets, operating income and cash flows are not seriously affected by fluctuations in market interest rates.

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

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 effects which a certain variation in the interest rate would have on results. 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.

On the basis of the different scenarios, the Group manages the cash flow interest rate risk through floating-to-fixed interest rate swaps. These interest rate swaps have the economic effect of converting floating interest borrowings to fixed interest borrowings. Generally the Group obtains long-term borrowings at floating interest rates and swaps them for fixed rates borrowings that are lower than those which would be available if the Group obtained them directly at fixed interest rates. Under interest rate swaps, the Group undertakes with other parties to exchange the difference between fixed and floating interest, calculated on the basis of the principal notionals on a regular basis (generally quarterly).

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 and wholesalers and retailers, including accounts receivable outstanding and committed transactions. The Group only does business with reputable banks and financial institutions.

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. Due to the dynamic nature of the underlying businesses, the parent company's Treasury Department aims to maintain flexibility in funding by keeping credit lines available.

6.2 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 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 statement of financial position 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.

7. Intangible assets

7.1 Goodwill

The changes under this heading on the consolidated statement of financial position in 2011 are as follows:

Euro	12/31/2011	12/31/2010
Company		
Cake Entertainment Ltd	866,929	-
Total	**866,929**	**-**

During 2010 there was no goodwill from the subsidiaries of Zinkia Entertainment, S.A.

As indicated in note 1 of these Consolidated Financial Statements, the changes in goodwill were as follows:

- A 51% stake in the company Cake Entertainment, Ltd. was acquired on June, 2nd 2011.

7.2. Other Intangible Assets

The details and changes in the items under the Intangible Assets caption other than goodwill were as follows during 2011 and 2010:

Euro	Balance at 12/31/09	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Balance at 12/31/10
Cost						
Research and development	4,240,503	-	1,990,939	-	(1,096,661)	5,134,781
Intellectual property	8,994,216	-	-	-	1,096,661	10,090,877
Computer software	456,063	-	30,400	-	22,953	509,416
Intangible assets advances	17,025	-	5,928	-	(22,953)	-
Total	**13,707,807**	**-**	**2,027,267**	**-**	**-**	**15,735,074**
Accumulated Amortisation						
Research and development	(246,623)	-	(362)	-	-	(246,985)
Intellectual property	(4,358,195)	-	(1,651,036)	-	-	(6,009,231)
Computer software	(354,363)	-	(41,612)	-	-	(395,975)
Total	**(4,959,181)**	**-**	**(1,693,010)**	**-**	**-**	**(6,652,191)**
Impairment	-	-	(418,032)	-	-	(418,032)
Total	**8,748,626**	**-**	**(83,775)**	**-**	**-**	**8,664,851**

Euro	Balance at 12/31/10	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Balance at 12/31/11
Cost						
Research and development	5,134,781	-	1,616,154	-	-	6,750,935
Intellectual property	10,090,877	-	-	-	-	10,090,877
Computer software	509,416	-	4,858	-	-	514,274
Intangible assets advances	-	-	16,082	-	-	16,082
Total	**15,735,074**	**-**	**1,637,093**	**-**	**-**	**17,372,167**
Accumulated Amortisation						
Research and development	(246,985)	-	-	-	-	(246,985)
Intellectual property	(6,009,231)	-	(1,699,092)	-	-	(7,708,323)
Computer software	(395,975)	-	(37,924)	-	-	(433,899)
Total	**(6,652,191)**	**-**	**(1,737,016)**	**-**	**-**	**(8,389,207)**
Impairment	(418,032)	-	418,032		-	-
Total	**8,664,851**	**-**	**318,109**	**-**	**-**	**8,982,959**

The additions in 2011 refer primarily to work done on fixed assets (Note 3.1.a).

In 2011, the Group reversed a recognised loss due to the impairment of its intangible fixed assets, specifically the *Shuriken School* project which is included under the heading of "Intellectual Property". The recognition of this reversal is based on the improved revenue forecasts associated with the project in the coming years.

Fully-amortised intangible assets

At December, 31st 2011, the Group had fully depreciated assets valued at 2,674,705 still in use. These intangible assets correspond to software and audiovisual projects.

At December, 31st 2010, the Group had fully depreciated intangible assets valued at 851,359 still in use.

Assets subject to guarantees and ownership restrictions

At December, 31st no property, plant and equipment were subject to ownership restrictions or had been pledged to secure liabilities. The same was true at December, 31st 2010.

Grants received in relation to intangible assets

The Company has received capital grants for the acquisition of computer software (Note 13) that amounts to EUR 23,963.

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 12/31/09	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Balance at 12/31/10
Cost						
Machinery	31,689	-	-	-	-	31,689
Other equipment	26,584	-	7,933	-	-	34,517
Furnishings	56,760	-	8,639	-	-	65,399
Data-processing equipment	105,421	-	33,695	-	-	139,116
Other PPE	20,983	-	5,689	-	-	26,672
Total	**241,436**	**-**	**55,956**	**-**	**-**	**297,392**
Accumulated Amortisation						
Machinery	(30,955)	-	(212)	-	-	(31,167)
Other equipment	(18,827)	-	(3,532)	-	-	(22,359)
Furnishings	(30,523)	-	(8,908)	-	-	(39,431)
Data-processing equipment	(72,412)	-	(16,823)	-	-	(89,235)
Other PPE	(4,996)	-	(2,510)	-	-	(7,506)
Total	**(157,712)**	**-**	**(31,985)**	**-**	**-**	**(189,697)**
Impairment	-	-	-	-	-	-
Total	**83,724**	**-**	**23,971**	**-**	**-**	**107,695**

Euro	Balance at 12/31/10	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Balance at 12/31/11
Cost						
Machinery	31,689	-	-	-	-	31,689
Other equipment	34,517	-	3,681	-	-	38,198
Furnishings	65,399	109,071	9,218	-	-	183,688
Data-processing equipment	139,115	-	12,049	-	-	151,164
Other PPE	26,672	-	1,772	-	-	28,444
Total	**297,392**	**109,071**	**26,719**	**-**	**-**	**433,182**
Accumulated Amortisation						
Machinery	(31,167)	-	(118)	-	-	(31,285)
Other equipment	(22,359)	-	(3,562)	-	-	(25,921)
Furnishings	(39,430)	(59,555)	(20,966)	-	-	(119,950)
Data-processing equipment	(89,235)	-	(20,048)	-	-	(109,283)
Other PPE	(7,506)	-	(2,740)	-	-	(10,246)
Total	**(189,697)**	**(59,555)**	**(47,434)**	**-**	**-**	**(296,685)**
Impairment	-	-	-	-	-	-
Total	**107,695**	**49,517**	**(20,715)**	**-**	**-**	**136,497**

The main change during 2011 compared to the same period the year before was the addition of the fixed assets contributed by the Cake Entertainment Ltd. in the amount of EUR 49,517, this being the first period for which the company was consolidated by the Zinkia Entertainment Group. (Note 1)

Impairment losses

The Consolidated Financial Statements for 2011 do not include any fixed asset impairment losses. The same was true for the year before. (Note 3.5)

Fully-depreciated assets

At December, 31st the Group had fully depreciated assets valued at 155,038 still in use.

At December, 31st 2010, the Group had fully depreciated tangible assets valued at 111,787 still in use.

Property, plant and equipment subject to guarantees

At 12.31.11, no property, plant and equipment were subject to ownership restrictions or had been pledged to secure liabilities. The same was true at December, 31st 2010.

Commitments to purchase tangible fixed assets

At December, 31st the Group had assumed no commitments to acquire tangible fixed assets. The same was true at December, 31st 2010.

Assets under operating leases

The income statement includes operating leases on the rental offices for the Group and computer rentals, all of which total EUR 358,056. At 12.31.11 the Company has not non-cancellable operating leases.

Grants received in relation to property, plant and equipment

The Company has received capital grants for the acquisition of data-processing equipment (Note 13) that amounts to EUR 26,686.

9. Financial assets

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

Euro	12/31/2011	12/31/2010
Non-current financial investments		
Equity instruments	32,270	32,270
Other financial assets	52,500	52,500
Total	**84,770**	**84,770**
Current financial investments		
Loans to Group's companies	440,325	380,876
Equity instruments	192	198
Bonds and securities	17,000	
Other financial assets	193,574	179,403
Total	**651,090**	**560,477**

Non-current financial investments include the capital investments of the parent company.

Other non-current assets refer to long-term deposits and bonds set up by the parent company.

Current financial investments include loans granted to 98, S.L., which controls 71.56% of the share capital of the parent company, Zinkia Entertainment, S.A. This transaction is explained in further detail in note 18 regarding third party balances and transactions.

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

At December 31st, 2011 the parent Company has two deposits of restricted availability related to the issuance of bonds and a loan from a financial institution. The amounts are euro 109,938 and euro 50,000 respectively.

The caption 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.

Changes during the year in the fair value of assets measured at fair value with changes in the consolidated income statement are recorded in the net financial expense and amount to EUR 9.

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

10. Trade and other accounts receivable

The detail of this caption on the Consolidated Statement of financial position at December, 31st and 2010 is as follows:

Euro	12/31/2011	12/31/2010
Trade receivables	3,220,057	3,504,307
Accounts receivables	203,894	-
Others	1,659	(519)
Bad debt provision	(177,416)	(20,731)
Total	**3,248,194**	**3,483,057**

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

	2011	2010
Euro	1,859,722	2,657,006
Us dólar	994,101	591,156
Pound sterling	61,749	4,710
Australian dolar	1,299	-
Canadian dolar	93,625	-
Swiss franc	28	-
New Zealander dolar	2	-
Norwgian krone	6	-
Mexican peso	454	1,121
Yen	27	-
Yuan	237,182	229,064
Total	**3,248,194**	**3,483,057**

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 of the Consolidated Statement of financial position include the customer balances with maturity dates more than 12 months away from the formulation date of the Consolidated Financial Statements. At December, 31st the figure shown under this heading was EUR 411,644 compared to EUR 100,037 at the end of fiscal year 2010.

At December, 31st 2011, loss on trade receivables was recognised amounting to EUR 1,022,682 as insolvency firm. This amount corresponds mostly to the termination of the agreement with ITV. In addition, an impairment loss on trade receivables was recognised amounting to EUR 177,416 due to the estimation of the risk of defaults in the balance of existing clients and debtors.

The other accounts included in "Trade and other receivables" are not impaired.

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.

11. Cash and other cash equivalents

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

Euro	12/31/2011	12/31/2010
Cash	488,764	409,567
Cash equivalent	826	-
Total	**489,590**	**409,567**

These reserves are freely available for distribution.

12. Equity

Share capital

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

Shareholder	% Interest
Jomaca 98, S.L.	71.56%
Stock market and others	26.07%
Treasury shares	2.37%
Total	**100.00%**

The parent Company is governed by the terms of the Capital Companies Act which establishes a minimum capital of EUR 60,101.21 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	12/31/2011	12/31/2010
Non-current financial liabilities	4,867,597	3,672,294
Current financial liabilities	2,320,310	2,459,121
Cash and cash equivalents	(489,590)	(409,567)
Net Debt	**6,698,317**	**5,721,848**
Equity of the parent	8,749,074	9,456,988
Equity of the parent	**8,749,074**	**9,456,988**
Leverage	**76.56%**	**60.50%**

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 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.

The legal reserve at December, 31st and December 31st 2010 totalled EUR 237,262.

Other reserves

These include the reserves of the parent Company which stood at EUR 914,261 and EUR 938,387 at December, 31st 2011 and December 31st 2010 respectively, and those of the subsidiaries which totalled EUR (19,144) and EUR 3,917 on the same dates.

Treasury shares

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

The changes under the heading of "Treasury Stock" on the Consolidated Statement of financial position during 2011 are as follows:

Euro	Number of shares	Euros
Balance at January, 1st 2011	206,314	347,303
Additions	511,605	834,661
Disposals	(138,552)	(231,404)
Balance at December, 31st 2011	**579,367**	**950,560**

The changes during the same period the year before were as follows:

Euro	**Number of shares**	**Euros**
Balance at January,1st 2010	158,394	319,737
Additions	148,424	223,176
Disposals	(100,504)	(195,610)
Balance at December, 31st 2010	**206,314**	**347,303**

The treasury stock in the Company's possession at December, 31st represented approximately 2.37% (0.84% at December, 31st 2010) of the share capital with a nominal value of EUR 57.937 (EUR 20,631 at December, 31st 2010) and an average acquisition price of EUR 1.64 per share (EUR 1.50/share at December, 31st 2010). The average sale price of the Company's treasury stock at December, 31st 2010 was EUR 1.67 per share (EUR 1.95 per share at December, 31st 2010).

Dividends

The Group did not pay any dividends in 2011 nor does it intend to do so. The same is true for 2010.

Minority interests

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

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

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 of 25%.

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

14. Financial liabilities

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

Euro	12/31/2011		12/31/2010	
	Current	Non-current	Current	Non-current
Debentures and bonds	29,840	1,771,536	30,489	1,594,540
Bank loans	1,327,481	543,593	1,354,165	1,697,501
Other payables to banks	548,486	-	722,653	-
Derivative	-	5,999	-	33,784
Participating loans	376,371	-	351,814	250,000
Other borrowings	38,131	2,546,469	-	96,469
Total	**2,320,310**	**4,867,597**	**2,459,121**	**3,672,294**

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 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	12.11.13
Amortisation system	Par

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

Euro Maturity	12/31/2011	12/31/2010
2011	-	2,459,121
2012	2,320,310	1,553,974
2013	2,331,109	2,089,098
2014	2,536,488	29,222
Total	**7,187,906**	**6,131,415**

During 2011, the parent company took out a loan in the amount of EUR 2,500,000 which matures in 2014, as reported in the Relevant Event sent to the CNMV and MAB.

At December, 31st Group companies had unused lines of credit totalling EUR 19,949. At the end of 2010, the unused lines of credit totalled EUR 102,347.

All of the Group's debt is denominated in EUR.

The average weighted rate of reference of the Group's financial liabilities at December, 31st was 7.41%. At the end of 2010, the rate was 5.04%.

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

Euro	12/31/2011		12/31/2010	
	Euros	**%**	**Euros**	**%**
Fixed rate	5,538,850	77%	3,379,217	55%
Variable rate	1,649,056	23%	2,752,198	45%
Total	**7,187,906**	**100%**	**6,131,415**	**100%**

At December 31st, 2011, the Group has loan payments overdue. As of preparation of these financial statements, the Group is under negotiation and signature of new loan conditions to improve existing ones.

The difference resulting from the bond issue rate by the effective interest method compared to the nominal interest rate amounts to euro 177,459.

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.

The notional principal on outstanding interest rate swaps was EUR 500,000 at December, 31st 2011 and EUR 1,200,000 at December, 31st 2010.

At 12.31.11, fixed interest rate was 3.80%. The floating interest rate was 12M Euribor. Gains/ losses recognised in equity under “Reserves" for interest rate swaps at December, 31st will be transferred to the income statement on a consistent basis until the relevant bank loans are repaid.

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	12/31/2010	Additions	12/31/11
Tax credits for tax-loss carryforwards	1,555,932	176,171	1,732,102
Other tax credits	2,373,074	484,481	2,857,555
Deferred tax assets	**3,929,006**	660,651	**4,589,657**
Temporary differences - amortisation	13,092	5,535	18,627
Reversal temporary differences - amortisation	-	(2,607)	(2,607)
Temporary differences-deferred income	26,583	8,597	35,180
Deferred tax liabilities	**39,675**	**11,524**	**51,200**

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

Euro	12/31/2011	12/31/2010
Consolidated profit before taxes	**(454,695)**	**(3,004,177)**
Non-deductible expenses and non-computable income	43,771	84,070
Adjusted accounting profit	**(410,924)**	**(2,920,107)**
Corporate income tax	179,773	87,744
Deferred tax	(657,724)	(748,308)
Application of tax credit to offset tax loss carryforwards	-	-
Income tax expense	**(477,951)**	**(660,563)**

The details of the debit and credit tax balances with tax authorities at December, 31st are as follows:

Euro	12/31/2011	12/31/2010
Deferred tax assets	-	-
Tax credtis for tax-loss carryforwards	4,589,657	3,929,006
Corporate income tax assets	6,363	14,092
Other tax receivable	54,802	184,385
Tax receivables	**4,650,822**	**4,127,483**
Deferred tax liabilities	51,200	39,675
Corporate income tax payable	82,149	10,510
Other tax payable	642,944	330,764
Tax payables	**776,293**	**380,950**

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	12/31/2011	12/31/2010
Suppliers of services provided	2,321,829	1,283,000
Other	129,106	250,403
Total	**2,450,935**	**1,533,403**

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

Euro	2011	2010
Euro	1,842,630	1,461,673
US dolar	568,501	66,039
Pound sterling	39,804	2,205
Argentine peso	-	-
Brazilian real	-	
Yuan	-	2,718
Mexican peso	-	768
Total	**2,450,935**	**1,533,403**

It is the opinion of the directors of the parent Company that the carrying value of these balances is close to the 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 Consolidated Financial Statements. The transactions between the parent Company and its subsidiaries are detailed in the respective individual financial statements.

The balances maintained with related parties at December, 31st are as follows:

Euro	12/31/2011		12/31/2010	
	Receivables	Payables	Receivables	Payables
Advances to creditors				
Jomaca 98, S.L.	-	-	13,620	-
Short-term loans				
Jomaca 98, S.L.	440,325		380,876	
HLT, Bv	123,437			
Total	**563,762**	**-**	**394,496**	**-**

The related-party transactions during 2011 were as follows:

Euro	12/31/2011		12/31/2010	
	Expenses	Incomes	Expenses	Incomes
Jomaca 98, S.L.	341,661	9,450	108,000	8,364
Total	**341,661**	**9,450**	**108,000**	**8,364**

Transactions with related parties are equivalent to those that were at arm's length transaction.

19. Income and expense

Net sales

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

Euro	12/31/2011	12/31/2010
Trademark licences	7,032,013	3,498,921
Interactive/on-line contents	725,583	407,945
Other	31,193	86,397
Total	**7,788,789**	**3,993,262**

There are no clients who account for a significant portion of the turnover.

Other operating revenues

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

Euro	2011	2010
Services rendered to staff	1,173	2,739
Other services	3,800,000	-
Own work capitalized	1,616,154	1,990,939
Release to Income Statement-deferred income	15,609	-
Totales	**5,432,936**	**1,993,678**

The amounts recognized in the item "own work capitalized" corresponds to the costs incurred in the production of audiovisual projects of the Group.

The amount in "other services" corresponds to the amount invoiced for the final settlement following the completion of the contract with the ITV Global Entertainment. The Group has chosen to include this item under the heading of "other operating revenues" rather than include it in the net amount of turnover according to the recommendation of our auditors and taking into account the non-recurrence of this income, with in order not to distort the comparability of the business figures between this year and the previous one. However, the Group considers this income as belonging to the net amount of the turnover of this year, and was invoiced as such and declared to the tax authorities.

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 is as follows:

Euro	12/31/2011	12/31/2010
Wages and salaries	2,782,760	2,465,959
Compensations	95,862	11,342
Employer social security costs	692,233	708,665
Other expenses	154,073	148,429
Total	**3,724,928**	**3,334,395**

The breakdown by professional category and gender is as follows:

CATEGORY	2011		2010	
	Men	Women	Men	Women
5-YR DEGREE HOLDER	21.00	18.00	16.00	12.00
3-YR DEGREE HOLDER	4.00	1.00	6.00	-
SR.MANAGER	4.00	3.00	3.00	2.00
MANAGER 1	-	1.00	2.00	-
MANAGER 2	1.00	-	1.00	-
OFFICIAL 1	16.00	5.00	11.00	2.00
OFFICIAL 2	3.00	-	5.00	2.00
ASSISTANT	-	2.00	-	2.00
PROGRAMMER	2.00	-	3.00	-
OPERATOR	4.00	1.00	5.00	-
OFFICIAL 1	1.00	1.00	1.00	1.00
Total	**56.00**	**32.00**	**53.00**	**21.00**

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	12/31/2011	12/31/2010
Operating leases	358,056	280,221
Independent professional services	2,146,571	1,832,796
Other expenses	1,688,655	801,644
Impairment losses on commercial transactions	1,106,877	-
Total	**5,300,160**	**2,914,661**

Depreciation and provisions

The composition of this caption is as follows:

Euro	12/31/2011	12/31/2010
Intangible asset depreciation charge	1,737,016	1,693,010
Property, plant and equipment depreciation charge	47,916	31,984
Impairment intangible assets	-	(418,032)
Reversal impairment intangible assets	418,032	-
Total	**2,202,964**	**1,306,962**

Financial income and expense

Euro	12/31/2011	12/31/2010
Finance income due to credits to related parties	9,450	8,364
Other	15,361	11,855
Finance Income	**24,811**	**20,219**
Finance and similar costs	(801,473)	(273,370)
Exchange profit/losses	6,923	(6,324)
Finance Cost	**(794,550)**	**(279,694)**
Net financial expense	**(769,739)**	**(259,475)**

20. Based payment transactions 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 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 shall be entitled to all beneficiaries of plan will be of 1,200,000 shares.

-The plan will last 5 years having the beneficiaries 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 December 31st 2011, 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 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 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.

21. Contingencies and guarantees

During 2011, the Group had no identified contingent liabilities.

The parent company has two guarantees in the amount of EUR 1,000,000 and EUR 2,000,000 to guarantee loans in the same amounts.

22. Director and senior management compensation

Remuneration of the members of the Board of Directors

In 2011, the members of the Board of Directors received no remuneration for sitting on the Board.

In 2011 as in 2010, no contributions were made to pension plans or funds for 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 2011, the Group's senior management staff was paid a total of EUR 1,222,710 while in 2010 the senior management staff received a total of EUR 576,353 in remuneration. Number of senior management staff has increased during 2011.

In 2011, the parent Company's senior management staff was paid a total of EUR 1,119,612, while in 2010 the senior management staff received a total of EUR 576,353 in remuneration. Number of senior management staff has increased during 2011.

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

Article 42.3.h) of the Rules of the Board establishes that the Nomination and Remuneration Committee's functions include: 229 ter, 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 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.

23. Environmental information

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

In fiscal year 2011, 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	**12/31/2011**	**12/31/2010**
Profit Attributable to the equity holders of the parent	(84,477)	(2,266,379)
Average number of shares during the year	24,445,677	24,445,677
Average number of treasury shares held	(392,841)	(182,354)
Average number of shares outstanding	24,052,837	24,263,323
Basic earning per share (euros)	**- 0.0035**	**- 0.0934**

As at the date of these Consolidated Financial Statements, there are no transactions in shares that may modify the calculation of earnings per share (Note 26).

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 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 charged by Garrido Auditores, S.L. for auditing and other services for the parent company of the Group totalled EUR 8,000 in 2011.

The parent Company also paid fees in the amount of EUR 32,283 to Garrido Abogados y Asesores Fiscales, S.L.

26. Events after the Financial Statement date

On February 27th 2012, the parent Company has proceeded to the sale of 300,000 shares having an effect on equity of Euro 533,509 under the epigraph " Treasury Shares " and a loss of Euro 144,834 in "Reserves".

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 this law, at the end of the year the parent Company had a balance payable to suppliers in the amount of EUR 141,789 which had exceeded the legally-established payment deadline. During year 2011, the parent Company made payments to suppliers amounting to EUR 3,900,000, which 10% exceeded legal limit. The weighted average term of payment amounts to 118 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 Consolidated Financial Statements

These Consolidated Annual Accounts are signed by the members of the Board of Directors, at the time of the Board of Directors meeting held in Madrid on March, 22nd 2011.

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES
CONSOLIDATED DIRECTORS' REPORT 2011

Business Performance and Company Situation

The Group reported turnover of EUR 7,788,789 in 2011 compared to EUR 1,397,695 for the same period last year, which represents a 95% increase, mainly explained for the contribution to this figure of Cake Entertainment, Ltd, which was acquired a 51% stake last June, 2011. Cake has provided the Group a turnover of EUR 3,260,381.

Consolidated Operating Income went from negative EUR 2,235,666 in 2010 to negative EUR 100,845 until December, 31st 2011, which has been a very remarkable improvement over the previous year.

In April 2011 the parent company reached an agreement with ITV Global Entertainment Ltd., which put an end to all economic and commercial relations maintained to date. As result of the agreement, Zinkia is now the exclusive distributor of Pocoyo rights and licenses. This agreement marks a very important milestone in terms of Pocoyo commercial operations, so far the results achieved by ITV have not been as successful we would expect, from this moment Zinkia can implement strategies worldwide that enable it to achieve its objectives in business plans of the Company. It will also allow us to diversify the income sources geographically, which will in turn enable us to be less dependent on certain geographical areas in the coming years. The fact that Cake has joined the group will bring about important synergies and help us to distribute not only the audiovisual contents of Pocoyó but the rest of the Group's international projects as well.

While the Group's operating costs in 2011 were up 62% compared to the same period last year, they are in keeping with income and both personnel costs and general expenses came in below budget. Cake gives the group a significant amount of revenue, but also gives substantial cost, as two million euro to the line of "Costs of goods sold".

The Group's financial position is evenly balances, with consolidated net financial debt of EUR 6,698,316 at December, 31st compared to equity of EUR 8,978,670, which is equal to leveraging of 75%. The working capital shows a negative amount, and the group is taking actions in order to solve this situation during 2012.

Related- party transactions

Related party transactions during 2011 gives the group an amount of EUR 341,661 in the line of expenses.

Events after the date of these Consolidated Financial Statements

Between the date at these financial statements were made, and the date of preparation thereof, no events have occurred that are worthy of mention or have a significant influence, unless the sale of 300,000 shares of treasury stock that the company held, having an effect in equity of EUR 533,509 under "Treasury Shares" and a loss of EUR 144,834 in "Reserves".

Outlook for the Company

While it is still largely uncertain which way the world economy is going, in 2011 and thereafter we expect a considerable increase in the Group's business due to the synergies created with the addition of Cake and the territorial expansions planned for the Group's projects.

The Group will continue working on its developments and the commercial agreements to bring those developments into production, always from the perspective of rigorous cost control, increased efficiency and financial balance that facilitates the achievement of the Group's profitability objectives.

Research & Development.

The Group is constantly involved in technological research, development and innovation activities in order to optimise our productive processes and acquire the technical skills that will allow us to maintain our position as a leader in our sector.

Financial Risk Hedging

The Group hedges its interest rate risks in order to reduce the impact of interest fluctuations on the consolidated income statement.

Acquisition of treasury shares

Pursuant to the terms of article 262 of the Revised Text of the Capital Companies Act and considering the contents of Title IV, Chapter VI of the law, in 2011 the parent Company acquired 511,605 shares of treasury stock under a liquidity contract signed with Banesto Bolsa, S.V.B., S.A., which acts as the liquidity agent for Zinkia following our inclusion in the Mercado Alternativo Bursátil to fulfil the commitments acquired in the EUR 2.5 million financing operation signed in February of this year. Also during 2011, the Company disposed of 138,552 treasury shares, incurring losses of EUR 24,126 on these transactions which were carried as a reduction in equity on the consolidated statement of financial position. At December, 31st the Company possessed 579,367 shares with a par value of EUR 57,937, which accounted for 2.37% of share capital.

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 2011, formulated by the Board of Directors at the meeting held on March, 22nd 2012 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 22nd 2012

Mr. José María Castillejo Oriol	Mr. Alejandro Ballestero de Diego
Mr. Alberto Delgado Gavela	Mr. Juan José Güemes Barrios
Mr. Miguel Valladares García	JOMACA 98, S.L., represented by Mr.Iñigo Mencos Valdés

APPENDIX II

ISSUERS OF SECURITIES TRADED ON REGULATED SECONDARY MARKETS OTHER THAN SAVINGS BANKS

IDENTIFICATION OF ISSUER FISCAL YEAR 2011

TAX ID NUMBER: A82659061

Name:

ZINKIA ENTERTAINMENT, S.A.

Registered Office:

CALLE INFANTAS, 27, 1

MADRID

MADRID

28004

SPAIN

ANNUAL CORPORATE GOVERNANCE REPORT MODEL

FOR LISTED COMPANIES

For a better understanding of the model and subsequent preparation of the report, please read the instructions provided at the end before filling it out.

A. OWNERSHIP STRUCTURE

A.1. List the Company's most significant partners or shareholder as of the end of the fiscal year:

Name of shareholder or partner	% of share capital owned
JOMACA 98, S.L.	71,56
MIGUEL FERNANDO VALLADARES GARCÍA	4,78
ALBERTO DELGADO GAVELA	3,58

A.2. State, as applicable, any family, commercial, contractual or corporate relationships between the owners of significant holdings, insofar as these are known by the company, unless irrelevant or arising from ordinary trading or exchange activities:

Shareholder or partner	Type of relationship	Brief description

A.3. State, as applicable, any commercial, contractual or corporate relationships between owners of significant holdings and the company and/or its group, unless irrelevant or arising from ordinary trading or exchange activities:

Shareholder or partner	Type of relationship	Brief description
JOMACA 98, S.L.	Contractual	LOAN GRANTED BY ZINKIA ENTERTAINMENT, S.A. TO JOMACA 98, S.L.

B – COMPANY MANAGEMENT STRUCTURE

B.1. Board of Directors

B.1.1 List the maximum and minimum number of directors included in the articles of association:

Maximum number of directors	10
Minimum number of directors	3

B.1.2 Complete the following table on the members of the Board of Directors or governing body:

MEMBERS OF THE BOARD OF DIRECTORS/GOVERNING BODY

Name of director of member of governing body	Representative	Date of last appointment	Title
JOSÉ MARÍA CASTILLEJO ORIOL		26.05.2009	EXECUTIVE DIRECTOR
MIGUEL FERNANDO VALLADARES GARCÍA		26.05.2009	EXTERNAL PROPRIETARY DIRECTOR
JOMACA 98, S.L.	IGNACIO MENCOS VALDÉS	26.05.2009	EXTERNAL PROPRIETARY DIRECTOR
ALBERTO DELGADO GAVELA		26.05.2009	EXTERNAL PROPRIETARY DIRECTOR
ALEJANDRO FRANCISCO BALLESTERO DE DIEGO		26.05.2009	EXTERNAL PROPRIETARY DIRECTOR
JUAN JOSÉ GÜEMES BARRIOS		05.05.2010	EXTERNAL INDEPENDENT DIRECTOR
MARIANO MARTÍN MAMPASO		05.05.2010	EXTERNAL INDEPENDENT

			DIRECTOR

B.1.3. List any Directors or members of the governing body who hold office as directors or executives in other companies belonging to the listed Company's group:

Name of the Director or member of the governing body	Name of Group company	Title
JOSÉ MARÍA CASTILLEJO ORIOL	SONOCREW, S.L.	SOLE DIRECTOR
JOSÉ MARÍA CASTILLEJO ORIOL	CAKE ENTERTAINMENT, LTD	DIRECTOR

B.1.4 Complete the following table on the aggregate remuneration paid to directors or members of the governing body during the year:

Salary item	Individual (€'000)	Group (€'000)
Fixed remuneration	335	0
Variable remuneration	250	0
Per diems	0	0
Other	0	0
Total:	585	0

B.1.5 List the members of senior management who are not directors or members of the governing body and state total remuneration paid to them during the year:

Name or corporate name	Title
IGNACIO PASTOR GILI	MANAGING DIRECTOR
MARIA DOOLAN	BUSINESS DEVELOPMENT AND BRAND MANAGER
SONSOLES SEOANE GARCIA	GENERAL COUNSEL
INES ROVIRA GARCIA	GENERAL COUNSEL
LOREA GARCIA JAUREGUI	GENERAL COUNSEL
JULIO COVACHO LOPEZ	FINANCE MANAGER
MARIA ITURRIAGAGOITIA BUENO	HUMAN RESOURCES MANAGER
FERNANDO BARRENECHEA FERNANDEZ	MARKETING MANAGER

BRUNO MUNIESA CHURRUCA	PRODUCTION MANAGER
Total senior management remuneration (in thousands of euros)	535

B.1.6. State whether the articles of association or Board regulation establish a limited mandate for the Directors or members of the Board of Directors:

No.

B.1.7 State, if applicable, the person(s) who certified the company's individual and consolidated financial statements for preparation by the Board:

No

Name or corporate name	Title

B.1.8. Explain the mechanisms, if any, established by the Board of Directors or governing body to prevent the individual and consolidated financial statements it prepares from being submitted to the General Meeting with a qualified Audit Report.

According to the part 3 of article 39 of the Rules of the Board, the Board of Directors must formulate the definitive annual accounts in such a way that there will be no objections by the auditors. However, when the Board considers that it must remain firm in its position, it will explain and the scope and content of the discrepancy.

B.1.9. Is the Secretary of the Board a director?

No.

B.1.10. State the mechanisms, if any, established by the Company to preserve the independence of the auditors, of financial analysts, of investment banks and of rating agencies.

According to Article 13 of the Board Rules, the Audit Committee is in charge of the relations with external auditors, for receiving information on the issues which could jeopardise the independence of external auditors and other matters related to the account auditing process, as well as any other communications foreseen in auditing laws and technical auditing standards.

B.2. Committees of the Board of Directors or Governing Bodies

B.2.1. List the committees:

	Number of member	Functions

AUDIT COMMITTEE	3	DETAILED IN POINT B.2.3

B.2.2. Provide details on all committees of the Board or governing bodies and their members:

EXECUTIVE COMMITTEE

Name or corporate name	Title

AUDIT COMMITTEE

Name or corporate name	Title
JUAN JOSÉ GÜEMES BARRIOS	CHAIRMAN
JOMACA 98, S.L.	DIRECTOR - SECRETARY OF THE COMITTEE
ALBERTO DELGADO GAVELA	DIRECTOR

APPOINTMENTS AND REMUNERATION COMMITTEE

Name or corporate name	Title

STRATEGY AND INVESTMENT COMMITTEE

Name or corporate name	Title

B.2.3. Describe the organisation and operation of each committee of the Board or governing body and the responsibilities assigned to each one. Where applicable, describe the powers vested in the CEO.

AUDIT COMMITTEE

According to article 13 of the Board of Directors Rules of ZINKIA ENTERTAINMENT, S.A., the Audit Committee shall be composed of a minimum of three (3) and a maximum of five (5) directors appointed by the Board of Directors a majority of whom shall be non-executive directors and at least one of whom shall be and independent director. To this end, executive directors shall be understood as directors who performance managerial functions within the Company or any group company.

The Chairman of the Audit Committee shall be elected from among the non-executive directors for a four-year term but may be re-elected one year after the end of his/her last term of office.

All members of the Audit Committee and the Chairman in particular shall be appointed based on their knowledge of accounting and auditing. Committee members shall serve for four years and may be re-elected one year after the end of their previous term of office. Committee members shall step down when they cease to be company Directors or at the request of the Board of Directors.

The Audit Committee shall ordinarily meet every six months to review the periodic financial information to be forwarded to the stock market authorities, including forecasts, and the information and documentation to be approved and published by the Board of Directors each year. The Committee shall also meet as convened by the Chairman, who must do so whenever the Audit Committee is asked by the Board or the Chairman to draft a report or adopt proposals. The Committee shall also meet at the request of any member of the Committee and as required for the proper performance of the Committee's functions.

Notwithstanding any other responsibilities that may be assigned by the Board at any time, the basic functions of the Audit Committee include:

- Reporting to the General Meeting of Shareholders on the issues raised by shareholders which fall under its jurisdiction.
- Proposing to the Board of Directors for approval by the General Meeting of Shareholders the appointment of the external auditors referred to in article 204 of the Public Limited Companies Act along with the hiring conditions, the scope of their professional mandate or the revocation or non-renewal of the mandate.
- Supervising internal audit systems; ensuring their independence and effectiveness.
- Reviewing the Company's accounts to ensure that all legal requirements are being met and that accounting principles are being properly applied, in direct collaboration with the Company's internal and external auditors.
- Supervising the preparation process and the integrity of the Company's or Group's financial information, ensuring that all regulatory requirements are met and that all accounting standards are being properly applied; overseeing and supervising the Company's internal control systems, verifying their adequacy and integrity; reviewing the appointment or replacement of the persons responsible for these systems.
- Periodically reviewing internal risk management and control systems to ensure that the main risks are being properly identified and managed.
- Liaising with external auditors, receiving information on the issues which could jeopardise the independence of external auditors and other matters related to the account auditing process, as well as any other communications foreseen in auditing laws and technical auditing standards.

- Supervising compliance with the auditing contract, ensuring that the auditors' opinion on the annual accounts and the contents of the audit report are written clearly and precisely and evaluating the audit results.
- Reviewing the financial information that is released by the Board to the markets and supervisory bodies periodically, ensuring that the interim accounts are drafted using the same accounting standards as are used for the annual accounts.
- Examining compliance with the Internal Code of Conduct, these regulations and the Company's other rules of governance and making proposals for improvements.
- Reporting to the Board of Directors prior to the adoption by the Board of decisions on the following matters:
    a) The creation or acquisition of shares in special purpose entities or entities domiciled in tax haves and any other transactions or operations of a similar nature which, due to their complexity, could impair the Group's transparency and
    b) Related-party transactions.

CHIEF EXECUTIVE OFFICER

The CEO is vested with all of the powers vested in the Board of Directors according to the Articles of Association and the law.

B.2.4. State the number of meetings held by the Audit Committee during the year:

Number of meetings	2

B.2.5. If there is an Appointments Committee, state whether all of its members are Directors or external members of the governing body.

C. RELATED-PARTY TRANSACTIONS

C.1. List any relevant transactions entailing a transfer of assets or liabilities between the company or its group companies and the significant shareholders in the company:

Name or company name of significant shareholder	Name or company name of the Group company or enterprise	Type of relationship	Type of transaction	Amount (in thousands of euros)
JOMACA 98, S.L.	ZINKIA ENTERTAINMENT, S.A.	CONTRACTUAL	LOAN GRANTED BY ZINKIA ENTERTAINMENT, S.A. TO JOMACA 98, S.L.	50

C.2. List any relevant transactions entailing a transfer of assets or liabilities between the company or its group companies and the company's managers or directors:

Name or company name of managers or directors	Name or company name of the Group company or enterprise	Type of relationship	Type of transaction	Amount (in thousands of euros)
JOMACA 98, S.L.	ZINKIA ENTERTAINMENT, S.A.	CONTRACTUAL	LOAN GRANTED BY ZINKIA ENTERTAINMENT, S.A. TO JOMACA 98, S.L.	50

C.3. List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose object and conditions set them apart from the company's habitual trading activities:

Name of Group enterprise	Brief description of the transaction	Amount (in thousands of euros)

C.4. Identify any conflicts of interest affecting company Directors pursuant to Article 127.3 of the Spanish Companies Act.

There were not conflicts of interest affecting Company directors according to the terms of the Revised Text of the Capital Companies Act.

C.5. List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its Directors, management or significant shareholders.

The Company has established the following mechanisms which are set out in article 29 of the Rules of the Board of Directors.

1. The Director must inform the Board of Directors of the existence of a conflict of interest (direct or indirect) and must abstain from attending or participating in the debates on matters in which he or she has a personal conflict interest.

2- The Director shall communicate to the Board any interests or shares that he or she may (directly or indirectly through the persons who are considered related parties to the legal entity Director or its representatives as set in article 231 of the Capital Companies Act) have in other entities with the same, similar or analogue activity and they shall communicate as well the corporate positions he or she may hold in those companies.

3. These situations of Conflict of Interest shall be included in the Annual Information to be released.

D. RISK CONTROL SYSTEMS

D.1. Give a general description of risk policy in the company and/or its group, detailing and evaluating the risks covered by the system, together with evidence that the system is appropriate for the profile of each type of risk.

The Company has systems in place to control the risks to which it is exposed which are based on identifying and evaluating the risk factors that can in some way affect the fulfilment of the Company's objectives.

The Company is exposed to diverse financial risks: market risk, credit risk and liquidity risk. The Company's risk management programme focuses on the uncertainty of financial markets and tries to minimise the potentially adverse effects on financial yields. The Company uses derivatives to hedge certain risks.

The management of these risk factors is controlled by the Company's Finance Department, which identifies, evaluates and covers the financial risks according to the policies approved by the Board of Directors. The Board provides guidelines for overall risk management and for specific areas such as exchange rate risk, interest rate risk, liquidity risk, use of derivatives and non-derivatives and investing excess liquidity.

Moreover, the Audit Committee reviews the internal audit and risk management systems periodically to ensure that the main risks are being duly identified, managed and made known.

D.2. State the control systems established to evaluate, mitigate or reduce the main risks faced by the Company and Group.

Market Risk

(i) Exchange rate risk

The Company operates internationally and is therefore exposed to exchange rate risks associated with transactions in foreign currencies, particularly the US dollar and the pound sterling. Exchange rate risk arises from future trade operations, recognised assets and liabilities and net investments in foreign operations.

To manage the exchange rate risk that arises from future trade operations and recognised assets and liabilities, the Company uses futures contracts which are negotiated by the Finance Department. The exchange rate risk arises when the future trade operations or the recognised assets and liabilities are denominated in a currency other than the Company's working currency.

(ii) Price Risk

The Company is not exposed to capital price risks because there are not investments maintained by the Company and classified on the balance sheet as available for sale or at fair value with changes in profit and loss. The Company is not exposed to commodity price risks.

(iii) Interest rate risks on cash flows and fair value

Because the Company does not possess any significant remunerated assets, the income and cash flow from its operations are largely unaffected by fluctuations in market interest rates.

The Company's interest rate risk arises from its non-current bank borrowings. The floating interest loans taken out by the Company expose it to interest rate risk on cash flows. The fixed interest loans taken out by the Company expose it to interest rate risks affecting fair value.

The Company analyses its exposure to interest rate risks dynamically by simulating a number of scenarios which take refinancing, renewal, alternative financing and hedging into account. Based on the results of these simulations, the Company calculates the effects which a change in interest rates would have on profits. For each simulation we use the same variation in the interest rate for all currencies. These scenarios are only simulated for the liabilities representing the most relevant interest-accruing positions.

Based on the different scenarios, the Company manages the interest rate risk affecting cash flows by taking out floating-to-fixed interest rate swaps. The economic effect of these interest rate swaps is that the floating interest bank borrowings are converted to fixed interest. Generally speaking, the Company's non-current bank borrowings come with floating interest rates and the interest rates on the swaps are lower than the rates that the Company would have been able to obtain directly from the credit institution. Under these interest rate swaps, the Company undertakes with other parties to exchange, at certain intervals (usually quarterly), the difference between the fixed and floating interest rates, calculated on the notional principals.

Credit Risk

Credit risk is managed by groups. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions as well as from wholesale and retail clients, including outstanding accounts receivables and committee transactions. As far as banks and financial institutions are concerned, the Company only works with the most reputable and solvent ones.

Liquidity Risk

Prudent liquidity risk management implies having sufficient cash and negotiable securities, having financing available by maintaining sufficient credit facilities and having the ability to liquidate market positions. Given the dynamic nature of the underlying business, it is the responsibility of the Company's Finance Department to ensure flexible financing by having sufficient credit facilities available to the Company.

D.3. If any of the risk to which the Company and/or its group are exposed materialised during the year, state the surrounding circumstances and whether or not the established control systems worked.

No risks materialised in 2011 which had a significant impact on the Company.

D.4. State whether there is a committee or other governing body in charge of establishing and supervising these risk controls and describe its functions.

The Board provides guidelines for overall risk management and for specific areas such as exchange rate risk, interest rate risk, liquidity risk, use of derivatives and non-derivatives and investing excess liquidity.

According to article 5.1.g.vii., the Board of Directors approves the risk management and control policies and periodically follows up on internal reporting and control systems.

Moreover, the Audit Committee reviews the internal risk control and management systems periodically to ensure that the main risks are being duly identified, managed and made known, as established in article 13.2.f of the Rules of the Board of Directors.

E. THE GENERAL MEETING OR EQUIVALENT BODY

E.1. State the quorum that is required to convene the General Meeting or other governing body according to the Articles of Association. Describe how this differs from the minimum numbers set out in the Public Limited Companies Act or other applicable laws.

As stated in article 10 of the Articles of Association, the General Meeting is governed by the terms of the law, by the Articles of Association and by the General Meeting Rules.

Article 15 of the General Meeting Rules states that: “The General Meeting shall be validly convened on first call when the shareholders present or represented account for at least twenty-five percent of the subscribed capital with voting rights. On second call, the meeting may be validly held regardless of the share capital in attendance.

In order for the ordinary or extraordinary General Meeting to pass resolutions on capital increases or decrease or any other amendment of the articles of association, bond issues, the elimination or limitation of preferred acquisition rights to new shares, the transformation, merger, spin-off or assignment of the Company’s assets and liabilities or moving the Company’s registered address to a foreign country, the shareholders present or represented on first call must account for at least fifty percent of the subscribed capital with voting rights. On second call, twenty-five percent of the share capital with voting right shall suffice. However, if the shareholders present or represented account for less than fifty percent of the share capital with voting rights, the resolutions referred to in this paragraph can only be validly passed with the favourable vote of two-thirds of the capital present or in represented at the General Meeting.

Absences that occur once the General Meeting has been called to order have no effect on the holding of the meeting.

The quorum information contained in the General Meeting Rules does not differ from that set forth in the Capital Companies Act.

E.2. Explain the system for passing business resolutions. Describe how it differs from the system set out in the Public Limited Companies Act or other applicable laws.

As stated in article 13 of the Articles of Association and article 26 of the General Meeting Rules, resolutions must be passed by majority except in those cases where a higher majority is required by law or by the articles of association. This does not differ from the system described in the Capital Companies Act.

E.3. List the rights of shareholders or partners in relation to the General Meeting or equivalent governing body.

The shareholders' rights are as follows as stated in the Rules of the General Meeting:

Article 6. Convening the General Meeting

"Notwithstanding the Capital Companies Act regarding the convening of the General Meeting, the General Meeting shall be convened by the governing body.

The Ordinary General Meeting shall be convened by the governing body in the six first months of each Fiscal Year. The General Meeting shall be deemed valid even if it's convened or it's held out of term.

A General Meeting shall also be convened by the governing body at the request of shareholders controlling at least five percent of the share capital, expressing the matters to be addressed at the General Meeting. In this case, the General Meeting must be convened within thirty days of the notarised request being received by the governing body. The governing body must also include the matter or matters stated in the request on the meeting agenda."

Article 7. Announcement of the General Meeting

"Both ordinary and extraordinary General Shareholders' Meetings shall be convened by means of a notice published in the Trade Registry Official Gazette and in the official website of the Company (www.zinkia.com), or as otherwise established by law, at least one month before the specified date of the meeting, except when a longer term is established by law. The governing body shall consider the possibility of publishing the notice of meeting through other means of communication.

The notice of meeting shall specify the nature of the meeting (ordinary or extraordinary), the venue, the date convened upon first call as well as any matters to be discussed thereat. In addition, the notice shall notify of the date when, if applicable, the General Shareholders' Meeting would be held upon second call. Between the first and the second meeting there shall be a period of at least twenty-four hours. Insofar as possible, shareholders shall be advised should there be a higher likelihood that the General Shareholders' Meeting may be held either upon first or upon second call.

The notice of meeting shall list, clearly and succinctly, all matters to be discussed.

The notice shall also contain a mention to the right of shareholders to be represented by another person at the General Shareholders' Meeting, even when such person may not be a shareholder as such, as well as the conditions and procedures required in order to exercise such right, the right to information to be made available to shareholders and how to exercise such right.

The governing body shall include in the notice of meeting a mention to the specific means of remote communication that the shareholders may employ in order to exercise their right to vote directly or by proxy, as well as the instructions on the manner to do so. The Governing body shall also include information regarding the terms and conditions to exercise any shareholders right present at the General Meeting by electronic communications, in case these means are accepted.

Shareholders representing at least five per cent of share capital may request a complement to the notice of meeting of a General Shareholders' Meeting to be published, including one or more items of the agenda. In order to exercise this right, reliable notice shall be sent to the company's registered address within the five days following the notice of meeting being published.

The complement to the notice shall be published at least a fortnight before the date specified for the General Shareholders' Meeting to be held, and shall be communicated through the exact same means, including the Trade Registry Official Gazette, in which the original notice was published.

Failure to publish the complement to the notice of meeting within the term legally specified shall render the General Shareholders' Meeting invalid.

The Company shall send the notice of General Shareholders' Meeting as advertized, including, if applicable, any complements to the notice of meeting, to the Alternative Stock Market, all of which is performed in accordance with the specific applicable rules. Similarly, the text of the notice, including any complements that may be applicable, shall be published on the Company website.

The Board of Directors may require the presence of a notary public to attend the General Shareholders’ Meeting and take minutes at the meeting. The above is possible only when the required conditions are met, pursuant to the applicable laws.

Should a General Shareholders’ Meeting, being duly convened, not be held upon first call, and should no instance of second call be contained in the notice thereof, the latter shall be published, meeting the same conditions required for the first call, within fifteen days following the date of the General Shareholders’ Meeting failing to be held and eight days prior to the date of the meeting.”

Article 9. Right to information prior to the General Meeting

Once the announcement of the General Meeting has been published and up to the seventh day before the date of the General Meeting, shareholders may request information and clarifications from the Board of Directors on the agenda items and raise whatever questions they deem pertinent.

Likewise, shareholders may request additional information or clarification and make pose written questions regarding the public information forwarded by the Company to the Mercado Alternative Bursátil (Alternative Stock Market) since the last General Meeting was held. The Board of Directors shall be obligated to provide the requested information in writing up until the date of the General Meeting.

Requests may be hand delivered at the Company's registered offices, posted to the Company's postal address or sent electronically to the address specified in the meeting announcement. In the absence of such specification, the request may be sent electronically to the Shareholders' Office. In order for the electronic request to be accepted, the document must bear the legally-recognised electronic signature of the person making the request or some other previously-agreed mechanisms which is deemed by the Board of Directors to guarantee the authenticity and identity of the shareholder exercising his/her right to information.

Regardless of the mode of communication used to request information, the shareholder's request must include the full name of the shareholder and the numbering of the shares controlled so that this information may be compared against the list of shareholders and the number of shares assigned to each one by the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (Iberclear) for the General Meeting in question. It is the Shareholder's responsibility to prove that the request was submitted to the Company in the manner described above. The Company's website contains detailed information on shareholders' information rights as stipulated in the applicable laws.

The requests for information regulated in this article must be answered before the General Meeting of Shareholders, once the shareholder's identity and status have been verified.

The Directors are under the obligation to provide the requested information in writing up until the day of the General Meeting, except when:

a. publishing the requested information may, the Chairman's opinion, be harmful to the Company's interests.

b. the request for information or clarification does not refer to any agenda item or to the information available to the public which was forwarded by the Company to the stock market authorities since the date of the last General Meeting.

c. the request for information or clarification is considered abusive or

d. the disclosure is prohibited by legal or regulatory provision or by court order.

However, the exception stated in letter (a) above shall not apply when the request is backed by shareholders representing at least one-fourth of the share capital.

The Board of Directors may authorise any one of its members, the Chairmen of the Board committees or the Secretary of the Board to respond to shareholders' requests for information on behalf of the Board.

The same mode of communication by which the request was received shall be used to respond to the request, unless the shareholder states a different mode of communication from among those available according to this article. The Directors may send the information in question by certified post with acknowledgement of receipt or by Burofax.

The Company may include information on its website relative to the responses provided to shareholders in response to the questions raised in connection with the right to information regulated herein.

Article 10. Attendance rights.

Shareholders may attend the General Meeting regardless of the number of shares they own, provided that they have been accredited as shareholders prior to the Meeting and that they are in possession of the required attendance card or another legal document which accredits them as shareholders. Such documents must state the name, class and series of shares owned by the shareholder and the number of votes the shareholder may cast.

In order to attend the General Meeting, the shares must be duly entered in the share register in the form of account entries at least five days before the date of the General Meeting and shareholders must be in possession of attendance cards or any other legally-permitted document which proves that they are shareholders.

When shareholders exercise their voting rights using distance voting according to the terms set out in article 12 of the Articles of Association and 24 of these Regulations, this condition must also be met at the time of voting.

Furthermore, in order to attend the General Meeting, each shareholder must be in possession of an attendance card, a certificate issued by the participating entity in the Sociedad de Gestión de los Sistemas de Registro Compensación y Liquidación de Valores, S.A. (Iberclear) or any other legally-recognised document which accredits shareholder status.

Shareholders who attend the Meeting personally or through a representative must show their attendance cards at the door at the location where the Meeting is being held, as provided for in this clause.

Shareholders wishing to cast their votes remotely using digital methods must identify themselves and prove their shareholder status as determined by the governing body in the meeting announcement.

Article 12. Representation

Notwithstanding the fact that legal entity shareholders may be represented at the meeting by proxy, any shareholder who is entitled to attend the General Meeting may be represented by a proxy, who may or may not be a shareholder.

Proxies may be revoked at any time. As a rule and as long as the date is known with certainty, the last update by the shareholder prior to the General Meeting shall be considered valid. In the absence of such certainty, the shareholder's vote shall prevail over the delegation. In any event, personal attendance at the meeting by the shareholders shall be considered a revocation of the proxy.

A separate proxy must be issued for each General Meeting, either in writing or using the distance communications methods specifically approved by the governing body in the meeting announcement, provided that the requirements established in the announcement are met and only to the extent that the identities of the principal and proxy can be verified.

The terms of article 108 of the Public Limited Companies Act notwithstanding, a separate proxy must be issued in writing for each General Meeting. Proxies that are issued using remote telecommunications methods shall only be valid when:

a. they are hand delivered or sent by post, forwarding the attendance card and delegation issued by the entity or entities in charge of record-keeping or the deposit entity to the Company, duly signed and completed by the shareholder, or using any other written method which has been approved by the Board of Directors in advance and which, in the Board's opinion, makes it possible to identify the shareholder granting the proxy along with the proxy's identity.

b. they are issued using remote electronic modes of communication, enclosing an electronic copy of the attendance card and delegation which duly guarantees the proxy being granted and the identity of the issuing shareholder. Proxies issued in this way shall be permitted when the electronic document granting the proxy contains the legally-recognised electronic signature of the principal or another other form of identification previously authorised by the Board and deemed to adequately guarantee the authenticity and identity of the shareholder granting the proxy.

In order to be valid, the proxy granted using either one of the two remote communication alternatives cited in parts a) and b) above must be received by the Company before midnight on the third day before the date of the General Meeting on first call. The Board of Directors may set a shorter deadline depending on the terms of the Articles of Association.

The minimum details to be included in the documents containing the proxies for the General Meeting are as follows:

(i) The date of the General Meeting and the agenda.

(ii) The names of the principal and the proxy. If no name is specified, it shall be understood that the proxy is granted to the Chairman of the Board of Directors or his substitute.

(iii) The number shares owned by the shareholders granting the proxy and

(iv) Instructions on how the proxy should vote on behalf of the principal on each one of the Agenda items.

The Chairman and the Secretary or the persons designated by them shall be understood as authorised to determine the validity of the proxies and whether or not the requirements for attending the General Meeting have been met.

The powers of representation regulated herein are established without prejudice to the legal requirements governing cases of family representation and general powers of attorney.

Article 22. Right to information during the General Meeting

During the debate, shareholders may verbally request any information or clarifications they require on the agenda items. To do so, they must have identified themselves in advance as provided for in article 20 above.

The Directors are obligated to provide the requested information in the manner and by the deadlines stipulated in the applicable laws, except in those cases where:

a. The disclosure of the information could, in the Chairman's opinion, harm the Company's interests;

b. The request for information does not refer to any agenda item;

c. The requested information is not needed to form an opinion on the matters being debated by the General Meeting or the request can be considered abusive;

d. The disclosure is prohibited by legal or regulatory provisions or by court order.

However, the exception stated in letter (a) above shall not apply when the request is backed by shareholders representing at least one-fourth of the share capital.

The requested information must be provided by the Chairman or, at the Chairman's request, by the CEO, the chairman of a Board Committee, the Secretary, another Director or any employee or expert on the subject. The Chairman will determine in each case, based on the information being requested, whether it is most effective for the General Meeting to provide the responses on and individualised basis or grouped together by topic.

If it not possible to respond to the shareholder on the spot at the General Meeting, the information will be provided to the requesting shareholder in writing within seven days of the General Meeting.

Article 24. Distance voting.

Shareholders with the right to attend the General Meeting may cast their votes on the proposals relative to the agenda items using the following remote communication methods:

a. they are hand delivered or sent by post, forwarding the attendance card and delegation issued by the entity or entities in charge of record-keeping or the deposit entity to the Company, duly signed and completed by the shareholder (along with the ballot provided by the Company, if any), or using any other written method which has been approved by the Board of Directors in advance and which, in the Board's opinion, makes it possible to identify the shareholder casting the vote; or

b. using other remote electronic modes of communication, enclosing an electronic copy of the attendance card and vote (along with the ballot provided by the Company, if any) as long as the electronic voting document contains the legally-recognised electronic signature of the shareholder or another other form of identification previously authorised by the Board and deemed to adequately guarantee the authenticity and identity of the voting shareholder.

The votes cast using the systems referred to above shall only be valid when they are received by the Company before midnight on the third day before the date of the General Meeting on first call. The Board of Directors may set a shorter deadline depending on the terms of the Articles of Association.

Shareholders casting their votes from a distance as described in this article shall be considered present at the meeting for quorum purposes. Consequently, the delegations issued previously shall be considered revoked and those granted subsequently shall be considered null and void.

The votes cast from a distance as described in this article may only be cancelled:

i. by expressly revoking the vote using the same channel used to cast the vote by the established deadline.

ii. When the issuing shareholder attends the meeting in person.

iii. When the shares in respect of which the voting rights are granted are sold and the Company is informed of the sale at least five days prior to the date of the General Meeting;

The Board of Directors is authorised to establish the rules, measures and procedures, in keeping with the state of the technology, needed to enable shareholders to cast their votes and grant proxies electronically, always in compliance with the laws governing these systems and the terms of the articles of association and these Rules. These measures and procedure will be published on the Company's website. The Board of Directors will take the measures needed to ensure that shareholders to cast their votes electronically or grant proxies by post or electronically are duly authorised to do so according to the terms of the articles of association and these Rules.

Distance voters will be included on the attendance list by added the digital medium where they are registered with the digital medium containing the rest of the list. If the list is composed of a file containing the attendance cards, a document will be generated on paper with the attendance card information for each one of the shareholders who voted electronically or telematically, notwithstanding the fact that the vote may be also be conserved in an electronic file.

Article 25. Voting on proposed resolutions

Once the debates have concluded and the information requested by shareholders has been provided as described herein, the shareholders will vote on the proposed resolutions on the agenda items and any other matters which are not legally required to be included on the agenda. The Chairman is responsible for deciding the order in which the shareholders vote on these other matters.

Votes may be split so that the financial brokers who appear as legitimate shareholders acting on behalf of different clients can cast their votes following their clients' instructions. It is not necessary for the Secretary to read the proposed resolutions in advance if the text of the proposed resolutions is distributed to shareholders at the beginning of the Meeting, except when one or more shareholders request that one or more of the proposals be read aloud or when this is deemed necessary by the Chairman. The attendees will be informed of the agenda item to which the proposed resolution refers.

Each agenda item will be voted on separately.

However, depending on the circumstances the Chairman may decide that the proposals relative to more than one agenda item be voted on jointly, in which case the results of the vote will be understood to apply individually to each proposal if none of the attendees expresses a desire to modify his/her vote on any one of them.

Otherwise, the voting modifications expressed by each one of the attendees will be noted in the minutes along with the results of the votes on each one of the proposals as a consequence.

The process of passing resolutions must follow the order of the agenda contained in the meeting announcement. The shareholders will vote first on the proposals made by the Board of Directors. Once a proposed resolutions has been approved, any other proposals on the same topic that are incompatible with the approved resolutions will be automatically eliminated and will not be put to the shareholders for a vote.

Generally speaking, the procedure for calculating the results of the voting on proposed resolutions will be as follows, notwithstanding the President's discretion, based on the circumstances, nature or contents of the proposal, to employ an alternative procedure:

a. The votes cast by all of the shares present or represented at the meeting will be considered votes in favour of the resolution, less (i) the votes corresponding to the shares whose owners or representatives express to the notary (or the Secretary) that they wish to vote against the proposal or to abstain for inclusion in the minutes; (ii) the votes corresponding to shares whose owners have voted against the proposal or abstained or who have specifically expressed their abstention using the channels of communication referred to in this article and (iii) the votes corresponding to the shares whose owners or representatives have left the meeting prior to the voting on the proposed agreement and have informed the notary (or the Secretary) that they were leaving;

b. the notifications or statements made to the notary public (or the Secretary or the personnel assisting the Secretary) as described in the preceding paragraph regarding whether the shareholder wishes to vote for or against a resolution or abstain may be made individually for each one of the proposals or jointly for some or all of the proposals, indicating to the notary public (or the Secretary or the personnel assisting the Secretary) the identity and status – shareholder or representative – of the person making the statement, the number of shares involved and whether the shareholder is voting for, against or abstaining;

c. for the passage or resolutions on matters not included on the agenda, the shareholders who vote on the proposals remotely shall not be considered present or represented at the General Meeting.

E.4. Briefly describe the resolutions passed by the general meeting or equivalent governing body during the year to which this report refers and the percentage of votes with which the resolutions were passed.

The resolutions passed by the Ordinary General Meeting held on 30th June 2011 were as follows:

One.- Examination and approval of the Annual Accounts (Balance Sheet and Income Statement, Statement of Change in Equity, Cash Flow Statement and Notes to the Financial Statement) and Directors' Report of ZINKIA ENTERTAINMENT, S.A. for the 2010 fiscal year.

Passed with 100% of votes.

Two. Examination and approval of the proposed distribution of profits (losses).

Passed with 100% of votes.

Three. Examination and approval of the Board of Directors' performance.

Passed with 100% of the votes.

Four. Amendment of articles 1, 2, 9, 10, 11, 13, 14, 16, 18 and 20 of the Company's Articles of Association, and inclusion of a new article 21.

Passed with 95,27% of the votes.

Five. Modification of the preamble and articles 4, 5, 6, 7, 12, 13, 26 and 27 of the Rules of the General Meeting of Shareholders.

Passed with 95,27% of the votes.

Six. Authorisation to the Board of Directors for derivative acquisition of shares, subject to the terms set out in article 146 and concordant of the Capital Companies Act.

Passed with 95,27% of the votes.

Seven. Plan of conditional delivery of shares to the Board of Directors and Company Executives.

Passed with 95,27% of the votes.

Eight. Reelection of External Auditors.

Passed with the 100% of the votes.

Nine. Delegation of powers for developing, notarising and registering the foregoing resolutions and for filing the Annual Accounts with the Business Register.

Passed with 100% of the votes.

E.5. Give the address of the corporate website and the way in which the corporate governance contents can be accessed.

On the Company's website – www.zinkia.com - users can go to the section on information for shareholders and investors and click on Corporate Governance on the menu on the left side of the page to find information on corporate governance. The complete address to get to this point is: http://www.zinkia.com/informacioncorporativa/

E.6. State whether meetings have been held with the different syndicates of bondholders, if any, the purpose of the meeting held during the fiscal year in question and the most important resolutions passed.

There were no meetings in 2011 with the syndicates of bondholders of securities that trade of regulated markets.

F - DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

State the degree to which the Company has complied with the recommendations for good corporate governance and those recommendations which the Company has not assumed.

Should the company fail to comply with any of them, explain the recommendations, rules, practices or criteria the company applies.

Until such time as the single document referred to in ECO ORDER 3722/2003 of 26 December has been drafted, the recommendations contained in the Olivencia Report and the Aldama Report should be used as the references for completing this section, to the extent that these recommendations apply to your Company.

Since the Company is not a publicly listed entity whose stock trade on a regulated market, as this is defined in the Spanish Stock Market Act, the Company is not bound by the recommendations of the Unified Code of Good Governance (hereinafter, the "Unified Code") since its stocks are trades on the Mercado Alternativo Bursátil in the segment of enterprises in expansion (MAB-EE) since 15 July 2009, which is not a regulated market according to the applicable laws but rather a multilateral trading system.

However, ZINKIA ENTERTAINMENT, S.A. has assumed several of the recommendations contained in the Unified Code and intended for publicly listed companies.

In this regard, as of the date of this report, ZINKIA ENTERTAINMENT, S.A. complies with the following recommendations of the Unified Code.

- The size of the Board of Directors should allow all members to participate in the debates: During 2011, there were seven Directors, and as of the date of this report, there are six directors, which is within the range recommended by the Unified Code (between 5 and 15 members) and which allows for effective and participative operation. The Articles of Association of ZINKIA ENTERTAINMENT, S.A. establishes a maximum of 10 members, which is also within the range recommended by the Unified Code.

- Composition of the Board of Directors: As of the date of this report, independent and proprietary external directors constitute an ample majority of board members, with five, compared to the solely executive director member, which complies with recommendation 10 of the Unified Code.

- Inclusion of independent directors, these being understood as directors who do not perform executive functions, who do not represent any significant shareholders and who do not have relations with either of the foregoing groups. As of the date of this report, ZINKIA ENTERTAINMENT, S.A. had one independent director on the Board of Directors.

- Creation of committees: ZINKIA ENTERTAINMENT, S.A. has an Audit Committee composed of a majority of non-executive directors, one of whom is an independent director. In compliance with recommendation 44 of the Unified Code, the independent director is the Chairman of the Audit Committee. Furthermore, the Rules of the Board of Directors provide for the possibility of establishing an Appointments and Remuneration Committee, again with a majority of external directors. As of the date of this report, no agreement had been reached on creating such a committee.

Finally, ZINKIA ENTERTAINMENT, S.A. has approved a set of Rules for the Meeting of Shareholders and the Board of Directors containing specific measures intended to guarantee the most effective administration of the Company, along with an Internal Code of Conduct for operating with the Stock Market.

The Rules of the General Meeting of Shareholders and Board of Directors and the Internal Code of Conduct can be consulted on the Company's website at www.zinkia.com/informacioncorporativa.

G. OTHER INFORMATION OF INTEREST

If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report, state and explain below.

You may include in this section any other information, clarification or observation related to the above sections of this report, to the extent that it is relevant and non-repetitive.

Specifically state whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

To supplement the information provided in point B.1.2. on June 30th 2011, the Board of Directors agreed to accept the resignation of Mr. Fernando de Miguel Hernández as a member of the Board of Directors, and in consequence as CEO and Vicepresident of the Board, leaving a vacancy on the Board of Directors.

On February 29th 2012, the Board of Directors of ZINKIA ENTERTAINMENT, S.A. agreed to accept the resignation of Mr. Mariano Martín Mampaso as a director for reasons of incompatibility, and the Board, as set out in the article 244 of the Capital Companies Act, designated by cooptation, conditioned to the next General Meeting, as member of the Board of Directors the company Axon Capital e Inversiones SGECR S.A. As of the date of this report the acceptance of such designation has not been received.

The Board of Directors greed on October the 7th 2011 to appoint the Chairman of the Board, Mr. Jose María Castillejo Orial as CEO of the Company, and to appoint Mrs. Lorea Garcia Jauregui as the Secretary of the Board in place of Mrs. Inés Rovira García.

All of these changes were duly and on time notified to the CNMV and the MAB in the form of relevant events.

In addition, we would like to clarify the information provided in point B.1.6 of this report which states that there is no limit on the amount of time Board members may remain on the Board. As established in article 17 of the Articles of Association, and article 20 of the Rules of the Board of Directors, the Directors shall hold their position for a term of five years, and may be re-elected once or more times for terms of equal length. The article 21.1 of the Rules of the Board of Directors, since the Company's shares began to trade on the Mercado Alternative Bursátil, established that independent directors must step down from their posts after 12 years of uninterrupted service.

We would like also to clarify that the Board of Directors will propose the next General Meeting the actualization of the Articles of Association, the Rules of the Board of Directors and the Rules of the General Meeting accordingly to the last legislative modifications, and in particular, to the last changes operated by Law 25/2011, August 1st.

Regarding information provided in point B.1.5, we would like to clarify that in order to give more transparency, the data of all the Company Executives that reported to the CEO during any time of 2011 have been included, even if after the resignation of the CEO and the appointment of the Chairman, Mr. José María Castillejo Oriol, as CEO, the persons that actually report to the first management level of the company have clearly decreased.

This Annual Corporate Governance Report was approved by the Board of Directors or governing body at the session held on 22 March 2012.

List any directors who voted against or abstained from voting on the approval of this report.

GARRIDO AUDITORES

ZINKIA ENTERTAINMENT, S.A.

Audit Report, Financial Statements
and Directors' Report
at December 31, 2011

This is a free translation of the original audit report, which was prepared in Spanish. In all matters of interpretation, information or opinions, the original version takes precedence over this translation.

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, 2011, 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 company's Managers are responsible for the preparation of these financial statements in accordance with the 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 standards contained in said framework. Our responsibility is to express an opinion on the financial statements taken as a whole, based on the work conducted in accordance with legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the financial statements and an assessment of whether their overall presentation, the accounting principles and standards used and the estimates made are in accordance with the applicable financial reporting framework.

2. In our opinion, the accompanying financial statements for 2011 present fairly, in all material respects, the financial position of ZINKIA ENTERTAINMENT, S.A. at December 31, 2011 and the results of its operations and cash flows for the year then ended, in conformity with the applicable financial reporting framework and, in particular, with the accounting principles and standards contained in said framework.

3. The accompanying Directors' Report for 2011 contains the explanations that the company's Directors consider appropriate regarding the company's situation, the development of its business and other matters and does not form an integral part of the financial statements. We have verified that the accounting information contained in the Directors' Report is in agreement with that of the financial statements for 2011. Our work as auditors is limited to checking the Directors' Report in accordance with the scope mentioned in this paragraph and it does not include a review of information other than that obtained from the company's accounting records.

Garrido Auditores, S.L.
(Registered at Official Auditor Register with no. S1838)

Julio Cesar Calvo
Partner-Auditor
April 27, 2012

ZINKIA ENTERTAINMENT, S.A.

FINANCIAL STATEMENTS AND AUDITOR’S REPORT 2011

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

ZINKIA ENTERTAINMENT, S.A.
BALANCE SHEET AT DECEMBER 31st 2011 AND 2010 (In EUR)

ASSETS	Note	2011	2010
A) NON-CURRENT ASSETS		**15,119,673**	**12,895,833**
I. Intangible fixed assets	**5**	**8,982,959**	**8,664,851**
3. Patents, licenses, trademarks and similar		4,117,529	3,663,615
5. Computer software		80,374	113,441
6. Other intangible assets			
Research		4,768,975	4,887,795
Advance for intangible assets		16,082	-
II. Property, plant and equipment	**6**	**100,176**	**107,695**
2. Plant and other PPE		100,176	107,695
IV. Non-current investments in group companies and associates	**7, 8**	**1,002,966**	**9,474**
1. Equity instruments		1,002,966	9,474
V. Non-current financial investments	**7 ,11**	**32,270**	**84,770**
1. Equity instruments		32,270	32,270
5. Other financial assets		-	52,500
VI. Tax credits	**21**	**4,589,657**	**3,929,006**
VII. Non-current trade receivables	**7 ,11**	**411,644**	**100,037**
1. From clients		411,644	100,037
B) CURRENT ASSETS		**2,288,773**	**4,682,027**
III. Trade and other accounts receivable	**7, 11**	**1,580,505**	**3,702,132**
1. From clients		1,538,096	3,483,576
2. Clients, group companies and associates		-	25,105
3. Sundry receivables		109	-
5. Current tax assets		2,852	14,092
6. Other tax credits		39,449	179,359
IV. Current investments in group companies and associates	**7, 11,26**	**440,674**	**381,228**
2. Loans to companies		440,325	380,876
5. Other financial assets		349	352
V. Current financial investments	**7 ,11**	**210,765**	**179,601**
1. Equity instruments		192	198
3. Debt securities		17,000	-
5. Other financial assets		193,574	179,403
VI. Prepaid expenses		**31,010**	**44,567**
VII. Cash and cash equivalents	**14**	**25,819**	**374,499**
1. Cash		24,993	374,499
2. Cash equivalents		826	-
TOTAL ASSETS		**17,408,446**	**17,577,860**

ZINKIA ENTERTAINMENT, S.A.
BALANCE SHEET AT DECEMBER 31st 2011 AND 2010 (In EUR)

EQUITY AND LIABILITIES	Note	2011	2010
A) NET EQUITY		**8,796,564**	**9,501,287**
A-1) SHAREHOLDER'S EQUITY		**8,697,021**	**9,455,324**
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**	**1,151,523**	**1,175,649**
1. Legal and statutory		237,262	237,262
2. Other reserves		914,261	938,387
IV. Treasury stock	**17**	**(950,560)**	**(347,303)**
V. Profit/(loss) carryforwards		**(3,389,612)**	**(1,091,225)**
2. Tax loss carryforwards		(3,389,612)	(1,091,225)
VII. Profit/(loss) for the year	**18**	**(130,919)**	**(2,298,387)**
A-2) ADJUSTMENTS DUE TO VALUE CHANGES	**12**	**(5,999)**	**(33,784)**
II. Hedgings transactions		**(5,999)**	**(33,784)**
A-3) GRANTS, DONATIONS AND BEQUESTS RECEIVED	**20**	**105,542**	**79,748**
B) NON-CURRENT LIABILITIES		**4,918,797**	**3,711,969**
II. Non-current payables	**7 ,13**	**4,867,597**	**3,672,294**
1. Debentures and other marketable securities		1,771,536	1,594,540
2. Bank borrowings		543,593	1,697,501
4. Derivatives		5,999	33,784
5. Other financial liabilities		2,546,469	346,469
IV. Deferred tax liabilities	**21**	**51,200**	**39,675**
C) CURRENT LIABILITIES		**3,693,085**	**4,364,604**
III. Current payables	**7 ,13**	**2,141,651**	**2,709,524**
1. Debentures and other marketable securities		29,840	30,489
2. Bank borrowings		1,651,174	2,076,818
5. Other financial liabilities		460,637	602,217
V. Trade an other payables	**7 ,13**	**1,551,434**	**1,655,080**
3. Sundry payables		907,775	1,311,596
4. Wages and salaries pending of payment		32,996	519
6. Other tax payables		580,296	329,965
7. Advance from clients		30,367	13,000
TOTAL LIABILITIES AND EQUITY		**17,408,446**	**17,577,860**

ZINKIA ENTERTAINMENT, S.A.

INCOME STATEMENT FOR THE YEARS ENDED AT DECEMBER 31st 2011 AND 2010 (In EUR)

	Note	2011	2010
1. Revenue	22.b	4,520,767	3,945,306
3. Own work capitalised	5	1,616,154	1,990,939
4. Raw materials and consumables	22.c	(416,352)	(248,955)
5. Other operating revenues	22.f	3,802,047	2,739
6. Staff expenses	22.e	(3,319,905)	(3,334,395)
7. Other operating expenses	22.d	(4,750,528)	(2,954,860)
8. Fixed assets amortisation	5.6	(1,769,985)	(1,724,994)
9. Allocation of grants and other non-financial assets	20	15,609	-
11. Impairment and profit/(loss) on fixes assets disposals			
a) Impairment and losses	5	418,032	(418,032)
b) Profit/(loss) on disposals and other		3,230	531
12. Other results		(5,373)	(14,214)
A) OPERATING PROFIT/(LOSS)		**113,695**	**(2,755,935)**
13. Financial income		20,689	20,219
14. Financial expense		(787,108)	(273,280)
15. Change in fair value of financial instruments		-	(88)
16. Exchange differences		(9,977)	(6,324)
17. Impairment losses on disposal of financial instruments		(30,843)	(31,288)
B) FINANCIAL PROFIT/(LOSS)		**(807,239)**	**(290,761)**
C) PROFIT/(LOSS) BEFORE INCOME TAX		**(693,544)**	**(3,046,696)**
18. Corporate income tax	23	562,624	748,308
D) PROFIT/(LOSS) FOR THE YEAR		**(130,919)**	**(2,298,387)**

ZINKIA ENTERTAINMENT, S.A.

STATEMENT OF CHANGE IN EQUITY FOR THE YEARS ENDED DECEMBER 31st 2011 AND 2010

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

	12/31/2011	12/31/2010
A) Profit/(loss) for the year	**(130,919)**	**(2,298,387)**
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	1,031	(8,734)
III. Grants, donations and bequests received	50,000	(43,669)
V. Tax effect	(12,500)	10,917
B) Total income and expense recognised directly in equity	**38,531**	**(41,486)**
Transfers to income statement		
VI. Change in value of financial assets	-	-
1. Available-for-sale financial assets	-	-
2. Other income/expense	-	-
VII. Cash-flow hedges	26,754	38,338
VIII. Grants, donations and bequests received	(15,609)	-
IX. Tax effect	3,902	-
C) Total transfers to income statement	**15,047**	**38,338**
TOTAL RECOGNISED INCOME AND EXPENSE (A + B + C)	**(77,341)**	**(2,301,535)**

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

	REGISTERED CAPITAL	SHARE PREMIUM	RESERVES	TREASURY STOCK	PRIOR-YEAR RESULTS	PROFIT/(LOSS) FOR THE YEAR	VALUE ADJUSTMENTS	GRANTS AND DONATIONS	TOTAL
A. 2009, ENDING BALANCE	**2,445,677**	**9,570,913**	**1,189,150**	**(319,737)**	**-**	**(1,091,224)**	**(63,389)**	**112,500**	**11,843,891**
I. Adjustments due to criteria changes									-
II. Adjustments due to errors									-
B. 2010, ADJUSTED STARTING BALANCE	**2,445,677**	**9,570,913**	**1,189,150**	**(319,737)**	**-**	**(1,091,224)**	**(63,389)**	**112,500**	**11,843,891**
I. Total recognised income and expense						(2,298,387)	29,604	(32,752)	(2,301,535)
II. Transactions with shareholders									-
5. Trading treasury stock			(13,501)	(27,567)					(41,068)
III. Other movements in equity					(1,091,224)	1,091,224			-
C. 2010, ENDING BALANCE	**2,445,677**	**9,570,913**	**1,175,649**	**(347,303)**	**(1,091,224)**	**(2,298,387)**	**(33,784)**	**79,748**	**9,501,287**
I. Adjustments due to criteria changes									-
II. Adjustments due to errors									-
2011, ADJUSTED STARTING BALANCE	**2,445,677**	**9,570,913**	**1,175,649**	**(347,303)**	**(1,091,224)**	**(2,298,387)**	**(33,784)**	**79,748**	**9,501,287**
I. Total recognised income and expense						(130,919)	27,785	25,793	(77,341)
II. Transactions with shareholders									-
5. Trading treasury stock			(24,126)	(603,257)	(2,298,387)	2,298,387			(627,383)
III. Other movements in equity									-
E. 2011, ENDING BALANCE	**2,445,677**	**9,570,913**	**1,151,523**	**(950,560)**	**(3,389,611)**	**(130,920)**	**(5,999)**	**105,542**	**8,796,564**

ZINKIA ENTERTAINMENT, S.A.

CASH FLOW STATEMENT FOR THE YEARS ENDED DECEMBER 31st 2011 AND 2010 (in EUR)

A) CASH FLOWS FROM OPERATIONS	NOTES	12/31/2011	12/31/2010
1. Profit before taxes		**(693,544)**	**(2,969,460)**
2. Adjustments to profit (loss)		**2,145,726**	**2,447,469**
a) Fixed asset depreciation	5, 6	1,769,985	1,724,994
b) Value corrections	5, 8	(387,189)	449,320
c) Allocation of grants	20	(15,609)	-
d) Profit(loss) from fixed asset disposals		(3,230)	(531)
e) Financial Income		(20,689)	(20,219)
f) Financial expenses		787,108	273,280
g) Exchange differences		9,977	6,324
h) Change in fair value of financial instruments		-	88
i) Other income and expenses		5,373	14,214
3. Change in working capital		**1,708,691**	**707,066**
a) Debtors and other receivables	7, 11	2,109,867	(324,110)
b) Other current assets and liabilities		13,558	(35,473)
c) Creditors and other payables	7, 13	(103,127)	1,151,329
d) Other non-current assets and liabilities	7 , 11, 21	(311,607)	(84,680)
4.- Other cash flows from operations		**(673,455)**	**(370,198)**
a) Interest paid		(572,992)	(278,758)
b) Dividends received		9	9
c) Collections (payments) for corporate income tax		(95,100)	(77,235)
d) Other payments (collections)		(5,373)	(14,214)
5.- Cash flows from operations (1+2+3+4)		**2,487,418**	**(185,123)**
B) CASH FLOWS FROM INVESTMENTS			
6. Paid on investments (-)		**7,026,438**	**2,328,206**
a) Group companies and associates	7, 8	1,074,331	83,108
b) Intangible assets	5	1,637,093	2,027,266
c) Property, plant and equipment	6	25,449	55,956
d) Other financial assets		4,289,565	161,875
7. Amounts collected from divestments (+)		**4,310,729**	**1,817,176**
a) Group companies and associates		-	350,000
b) Other financial assets		4,310,729	1,467,176
8. Cash flows from investments (7-6)		**(2,715,709)**	**(511,029)**
C) CASH FLOWS FROM FINANCING ACTIVITIES			
9. Collections and payments on equity instruments		**(627,383)**	**(41,068)**
a) Acquisition of equity instruments		(834,664)	(223,177)
b) Disposal of equity instruments		207,281	182,109
10. Collections and payments on financial liability instruments		**502,433**	**749,308**
a) Issues		2,927,602	2,954,086
1. Debentures and other marketable securities			1,570,906
2. Bank borrowings		32,163	1,112,332
3. Other payables		2,895,439	270,848
b) Retur and amortisation of		2,425,169	2,204,779
1. Bank borrowings		1,638,322	1,926,645
2. Other payables		786,847	278,133
11. Dividend payments and returns on other equity instruments		-	-
12. Cash flows from financing (9+10+11)		**(124,950)**	**708,240**
D) Effect of exchange rate fluctuations		4,562	(6,324)
E) NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)		**(348,679)**	**5,763**
Cash and cash equivalents at January, 1st		374,499	368,736
Cash and cash equivalents at December, 31st		25,819	374,499

ZINKIA ENTERTAINMENT, S.A.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31st 2011
(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 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 Company’s activities are focused primarily on those described in points a and b.

According to Article 6.1 of Royal Decree 1159/2010 of September, 17th, approving the Rules for Preparation of Consolidated Accounts, the Company is the parent of a group of companies (Note 8), and as such, and having issued securities admitted to trading on a regulated market in a member State of the European Union, submits consolidated financial statements under IFRS-EU.

2. Basis of presentation

a) True and fair view

These financial statements have been prepared on the basis of the Company's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts approved by Royal Decree 1514/2007 so as to present fairly the Company's equity, financial situation and results and accurately cash flow in the cash flow statement.

b) 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.

c) 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 financial year are discussed below.

- 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.

- Useful lives of the factory and Technology Division equipment

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 advanced technology segment. This could change considerably as a consequence of technical innovations and the actions of competitors. Management will increase the depreciation charge where useful lives are less than previously estimated and write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

d) Comparability of information

The Company has included the figures from previous year for comparison purposes as there is no reason why the figures from both years would not be comparable.

e) 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.

f) Changes in accounting policies

During the year, the Company has decided to reclassify the amount recorded under "other taxes" corresponding to the tax deducted at source from income earned abroad, to the epigraph "income tax" for considering such retentions as corporate income tax.
Are restated, in this sense, the Profit and Loss Account, and the note 22.d), being the expenses incurred by this concept in 2010 of euro 77,235 and in 2011 of euro 95,100.

g) Correction of errors

There were no corrections due to errors from prior years.

h) The going concern principle- Negative Working Capital

The balance sheet shows a negative Working Capital of 1.4 million euro as at December, 31st 2011, caused mainly by the attention and maturity of the debt of the Company and its investments.

The Company has decided to file these financial statements using the going concern principle for considering these circumstances as transitory and foresee, according with provided for in the Business Plan announced to the market.

In order to solve the shortage of financial resources that may be revealed during the year 2012,The Company is discussing during the present months various options for generating additional liquidity, while negotiations are held with potential financial funders, including current.

The Company's directors believe that these actions, which will take effect during the year 2012 , will lead to the necessary financial resources to meet all the commitments of the Company.

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 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.

Other development expenses are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent years.

Development costs with a finite useful life that have been capitalised are amortised on a straight-line basis over the period of the project's expected benefit, not exceeding five years.

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 change, the unamortized 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 level 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 maturities greater than 12 months after 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 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 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 and other financial assets through profit or loss: 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, are considered financial assets at fair value through profit or loss together with the financial assets designated by the Company upon initial recognition for inclusion in this category for the purposes of a fairer presentation. 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 (Note 3.6).

These financial assets are measured at both initial recognition and subsequent measurement at fair value and any changes in that value are reflected in the income statement. Transaction costs directly attributable to the acquisition are recognised in the income statement for the year.

d) 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 classicisation 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 different 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.

e) 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, at which time 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.

For available-for-sale financial assets, value adjustments are made if there is objective evidence of impairment as a result of a reduction or delay in estimated future cash flows in the case of debt instruments acquired or owing to the non-recoverability of the asset's carrying value in the case of investments in equity instruments The value adjustment is the difference between cost and amortised cost less any value adjustment previously recognised in the income statement and fair value at the time of measurement. For equity instruments measured at cost because fair value cannot be determined, the value adjustment is determined in the same way as investments in the equity of group companies, jointly-controlled entities and associates.

If there is objective evidence of impairment, the Company removes the cumulative loss from equity and recognises it in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

The fair values of quoted investments are based on prevailing bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making 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 attaching 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) <u>Fair value hedges:</u> 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) <u>Cash flow hedges</u>: 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) Creditors and payables

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) Financial liabilities held for trading and other financial liabilities at fair value through profit or loss

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, are considered financial liabilities at fair value through profit or loss together with the financial liabilities designated by the Company upon initial recognition for inclusion in this category for the purposes of a fairer presentation. 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 (Note 3.6).

These financial liabilities are measured at both initial recognition and subsequent measurement at fair value and any changes in that value are reflected in the income statement for the year. Transaction costs directly attributable to the issue are recognized in the income statement in the year in which they arise.

3.9 Grants received

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 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.

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) <u>When the Company is lessee – Finance leases</u>

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) <u>When the Company is the lessor – Operating leases</u>

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 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 annual accounts 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.

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 counterparty renders service.

4. Financial risk management

4.1 Financial risk factors

The Company's activities expose it 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.

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.

In order to manage the exchange risk that arises on future commercial transactions and recognised assets and liabilities, the Company uses forwards that are negotiated by the Treasury Department. Foreign exchange risk arises when the future commercial transactions and recognised assets and liabilities are denominated in a currency other than the Company's functional currency.

(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.

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.

On the basis of the different scenarios, the Company manages the cash flow interest rate risk through variable to fixed - interest rate swaps. These interest rate swaps have the economic effect of converting floating interest borrowings to fixed interest borrowings. Generally the Company obtains long-term borrowings at variable interest rates and swaps them for fixed rates borrowings that are lower than those which would be available if the Company obtained borrowings directly at fixed interest rates. Under interest rate swaps, the Company undertakes with other parties to exchange on a regular basis (generally quarterly) the difference between fixed and variable interest, calculated on the basis of the principal notional contracted.

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 and wholesalers and retailers, including accounts receivable outstanding and committed transactions. The Company only does business with reputable banks and financial institutions.

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. Due to the dynamic nature of the underlying businesses, the Company's Treasury Department aims to maintain flexibility in funding by keeping credit lines available.

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 12/31/2010	Additions	Disposals or reductions	Transfers	Balance at 12/31/11
Cost					
Research and development	5,134,781	1,616,154	-	(1,734,975)	5,015,960
Intellectual property	10,090,877	-	-	1,734,975	11,825,852
Computer software	509,416	4,858	-	-	514,274
Intangible assets advances	-	16,082	-	-	16,082
Total	**15,735,074**	**1,637,093**	**-**	**-**	**17,372,167**
Accumulated amortisation					
Research and development	(246,985)	-	-	-	(246,985)
Intellectual property	(6,009,231)	(1,699,092)	-	-	(7,708,323)
Computer software	(395,975)	(37,924)	-	-	(433,899)
Total	**(6,652,191)**	**(1,737,016)**	**-**	**-**	**(8,389,207)**
Impairment	(418,032)	418,032	-	-	-
Total	**8,664,851**	**318,109**	**-**	**-**	**8,982,959**

Euro	Saldo a 12/31/09	Additions	Disposals or reductions	Transfers	Balance at 12/31/10
Cost					
Research and development	4,240,504	1,990,939	-	(1,096,661)	5,134,782
Intellectual property	8,994,216	-	-	1,096,661	10,090,877
Computer software	456,063	30,400	-	22,953	509,416
Intangible assets advances	17,025	5,928	-	(22,953)	-
Total	**13,707,808**	**2,027,267**	**-**	**-**	**15,735,075**
Accumulated amortisation					
Research and development	(246,623)	(362)	-	-	(246,985)
Intellectual property	(4,358,195)	(1,651,036)	-	-	(6,009,231)
Computer software	(354,364)	(41,612)	-	-	(395,976)
Total	**(4,959,182)**	**(1,693,010)**	**-**	**-**	**(6,652,192)**
Impairment	-	(418,032)	-	-	(418,032)
Total	**8,748,626**	**(83,775)**	**-**	**-**	**8,664,851**

The additions in 2011 referred primarily to work done by the company on its own assets.

In 2011, the Company reversed a recognised loss due to the impairment of its intangible fixed assets, specifically the *Shuriken School* project which is included under the heading of "Industrial Property". The recognition of this reversal is based on the improved revenue forecasts associated with the project in the coming years.

Research and development expenses

Development costs capitalised relate to the following projects:

Euro				2011
Project	**Cost**	**Accumulated amortisation**	**Impairment**	**Carrying value**
Developed by the company				
Work in progress	4,768,975	-	-	4,768,975
Completed projects	246,985	(246,985)	-	-
	5,015,960	**(246,985)**	**-**	**4,768,975**

Research and development expenditure recognised in the income statement during the year totals EUR 1,616,154.

Industrial property rights

Recorded under this caption are the operating licences for the following projects: Pocoyó and the Shuriken School project.

Capitalised financial expenses

No financial expenses were capitalised in 2011.

Intangible assets located abroad

At 12.31.11, the Company had no intangible asset investments located outside of Spain.

Fully-amortised intangible assets

At 12.31.11, there were intangible fixed assets with an accounting cost of EUR 2,674,705 still in use and fully amortised. These intangible assets correspond to software and audiovisual projects.

Assets subject to guarantees and ownership restrictions

At 12.31.11, no intangible assets are subject to ownership restrictions or have been pledged to secure liabilities.

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 capital grants for the acquisition of computer software (Note 20) that amounts to EUR 23,963.

6. Property, plant and equipment

Set out below is an analysis of property, plant and equipment showing movements:

Euro	Balance at 12/31/10	Additions	Disposals or reductions	Transfers	Balance at 12/31/11
Cost					
Machinery	31,689	-	-	-	31,689
Other equipment	34,517	3,681	-	-	38,198
Furnishings	65,399	7,948	-	-	73,346
Data-processing equipment	139,115	12,049	-	-	151,164
Other PPE	26,672	1,772	-	-	28,444
Total	**297,392**	**25,449**	**-**	**-**	**322,841**
Accumulated amortisation					
Machinery	(31,167)	(118)	-	-	(31,285)
Other equipment	(22,359)	(3,562)	-	-	(25,921)
Furnishings	(39,430)	(6,500)	-	-	(45,930)
Data-processing equipment	(89,235)	(20,048)	-	-	(109,283)
Other PPE	(7,506)	(2,740)	-	-	(10,246)
Total	**(189,697)**	**(32,969)**	**-**	**-**	**(222,665)**
Impairment	-	-	-	-	-
Total	**107,695**	**(7,520)**	**-**	**-**	**100,176**

Euro	Balance at 12/31/09	Additions	Disposals or reductions	Transfers	Balance at 12/31/10
Cost					
Machinery	31,689	-	-	-	31,689
Other equipment	26,584	7,934	-	-	34,518
Furnishings	56,760	8,639	-	-	65,399
Data-processing equipment	105,421	33,695	-	-	139,116
Other PPE	20,983	5,689	-	-	26,672
Total	**241,437**	**55,956**	**-**	**-**	**297,392**
Accumulated amortisation					
Machinery	(30,955)	(212)	-	-	(31,167)
Other equipment	(18,827)	(3,532)	-	-	(22,359)
Furnishings	(30,523)	(8,907)	-	-	(39,430)
Data-processing equipment	(72,412)	(16,823)	-	-	(89,235)
Other PPE	(4,996)	(2,510)	-	-	(7,506)
Total	**(157,713)**	**(31,984)**	**-**	**-**	**(189,697)**
Impairment	-	-	-	-	-
Total	**83,724**	**23,972**	**-**	**-**	**107,695**

Impairment losses

The company did not recognise any losses due to the impairment of its property, plant and equipment in 2011.

Restatements under RD-Law 7/1996 of June, 7th

No revaluations of fixed assets have been applied during year 2011.

Property, plant and equipment located abroad

As at 12.31.11, the Company recorded the following investments in property, plant and equipment located at its Beijing offices:

Fixed assets	Cost	Accumulated amortisation	Impairment	Carrying value
				2011
Furnishings	7,001	(3,208)	-	3,793
Data-processing equipment	10,571	(10,058)	-	513
	17,572	(13,266)	-	4,306

Capitalised financial expenses

No financial expenses were capitalised in 2011.

Fully-depreciated assets

At 12.31.11, the Company had fully depreciated assets valued at 138,465 still in use.

	2011
Machinery	30,559
Furnishings	71,888
Data-processing equipment	24,375
Other PPE	11,643
	138,465

Property, plant and equipment subject to guarantees

At 12.31.11, 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 293,932. At 12.31.11 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

The Company has received capital grants for the acquisition of data-processing equipment (Note 20) that amounts to EUR 26,686.

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**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Available-for-sale financial assets	32,270	32,270				
Loans and receivables (Note 11)					411,644	152,538
Total non-current financial assets	**32,270**	**32,270**	**-**	**-**	**411,644**	**152,538**
	Current financial assets					
	Equity instruments		**Debt securities**		**Credit facilities, derivatives, other**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Assets at fair value through profit and loss (Note 10):						
-held for trading	192	198				
Held to maturity (Note 9)			17,000		-	-
Loans and receivable (Note 11)					2,172,452	4,019,312
Total current financial assets	**192**	**198**	**17,000**	**-**	**2,172,452**	**4,019,312**
Total	**32,462**	**32,468**	**17,000**	**-**	**2,584,096**	**4,171,850**

	Euro					
	Non-current financial liabilities					
	Bank borrowings		**Debentures an othre marketable securities**		**Derivatives, other**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Borrowings and payables (Note 13)	543,593	1,697,501	1,771,536	1,594,540	2,546,469	346,469
Hedging derivatives (Note 12)					5,999	33,784
Total non-current financial liabilities	**543,593**	**1,697,501**	**1,771,536**	**1,594,540**	**2,552,468**	**380,253**
	Current financial liabilities					
	Bank borrowings		**Debentures an othre marketable securities**		**Derivatives, other**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Borrowings and payables (Note 13)	1,651,174	2,076,818	29,840	30,489	1,431,775	1,927,331
Total current financial liabilities	**1,651,174**	**2,076,818**	**29,840**	**30,489**	**1,431,775**	**1,927,331**
Total	**2,194,767**	**3,774,319**	**1,801,377**	**1,625,029**	**3,984,243**	**2,307,584**

Figures are restated for the previous year by failing to consider tax administration accounts as assets or liabilities because, while they are a right to payment or a payment obligation not arising from a contractual relationship.

At December 31st, 2011 the Company has two deposits of restricted availability related to the issuance of bonds and a loan from a financial institution. The amounts are euro 109,938 and euro 50,000 respectively.

At December 31st, 2011, the Company has loan payments overdue. As of preparation of these financial statements, the Company is under negotiation and signature of new loan conditions to improve existing ones.

The difference resulting from the bond issue rate by the effective interest method compared to the nominal interest rate amounts to euro 177,459.

7.2 Analysis by maturity

Financial instruments having fixed or determinable maturities are shown below by year of maturity:

	Euro					
	Financial assets					
	2012	2013	2014	2015	There after	Total
Investments in group companies and associates						
-Loans and receivables	422,512	-	-	-	-	422,512
Total	**422,512**	**-**	**-**	**-**	**-**	**422,512**
Other financial investments						
-Held-to-maturity investments	17,000	-	-	-	-	17,000
-Loans and receivables	2,172,452	320,543	91,101	-	-	2,584,096
Total	**2,189,452**	**320,543**	**91,101**	**-**	**-**	**2,601,096**
Total	**2,611,964**	**320,543**	**91,101**	**-**	**-**	**3,023,608**
	Financial liabilities					
	2012	2013	2014	2015	There after	Total
Bank borrowings	1,651,174	510,743	32,849	-	-	2,194,767
Derivaties	-	5,999	-	-	-	5,999
Other financial liabilities	1,461,616	1,818,005	2,500,000	-	-	5,779,621
Total	**3,112,790**	**2,334,747**	**2,532,849**	**-**	**-**	**7,980,386**

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:

		% Interest held		Voting rights	
Name and address	**Legal status**	**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	0.00%	51.00%	0.00%	51.00%
HLT Productions Van der Helstlaan 48. 1213 CE Hilversum. The Netherlands	Private limited company	0.00%	51.00%	0.00%	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 31 December 2011:

	Equity						
Company	Capital	Reserves	Other	Operating results	FY profit (loss)	Carrying value of the investment	Dividends received
Sonocrew, S.L.	3,006	35,449	-	7,413	5,557	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.	1,209,000	-	(519,531)	(493,780)	(494,386)	122,470	(62,131)	-

	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	1,329	160,430	-	(270,631)	(262,797)	(263,236)	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	239	-	497,457	(111,081)	554,813	477,875	-	-	-

	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	18,000	-	91,004	-	4,850	6,097	-	-	-

In 2011, the Company recorded a loss due to the impairment of its investment in Producciones y Licencias Plaza de España, S.A. de C.V. due to the difference between the carrying value and the fair value of the investment, considering the equity of the investee company on the valuation date.

Cake Entertainment Ltd. is the parent company of a group of companies with two subsidiaries: Cake Distribution Ltd and HLT Productions Bv.

9. Held-to-maturity investments

This caption includes the following items and amounts:

Description	Amount	Incorporation date	Maturity	Interest rate	Accrued interest
Bonds	17,000	12/29/2011	5/1/2012	0.25%	-

10. Financial assets at fair value through profit or loss

This heading includes the following items and amounts:

	2011	Euro 2010
Held for trading-listed securities		
SCH bank shares (Note 7)	192	198

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 "Changes in the fair value of financial instruments" on the income statement and totalled EUR 9.

Maximum exposure to the credit risk at the reporting date is the fair value of the assets.

11. Loans and receivables

	2011	Euro 2010
Non-current loans and receivables		
-Clients, non-current	411,644	100,038
-Deposits (Note 7)	-	52,500
Total non-current loans and receivables	**411,644**	**152,538**
Current loans and receivables		
-Loans to associates (Note 26)	422,512	372,512
-Current account with subsidiaries (Note 26)	349	352
-Current account with related parties	4,233	-
-Trade receivables	1,538,096	3,508,681
-Debtors	109	-
-Interest in current investments (Note 26)	17,813	8,364
-Current deposits	139,340	129,403
-Financial products	50,000	50,000
Total current loans and receivables	**2,172,452**	**4,069,312**
Total	**2,584,096**	**4,221,850**

Figures are restated for the previous year by failing to consider tax administration accounts with assets or liabilities, because while they are a right to payment or a payment obligation not arising from a contractual relationship.

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

	2011	2010
Euro	1,615,968	3,395,799
US dolar	670,190	591,156
Pound sterling	60,090	4,710
Australian dolar	76	-
Canadian dolar	74	-
Swiss franc	28	-
New Zealander dolar	2	-
Norwegian krone	6	-
Mexican peso	454	1,121
Yen	27	-
Yuan	237,182	229,064
Total	**2,584,096**	**4,221,850**

Overdue trade receivables which are less than three months old are not considered to be impaired.

At December, 31st 2011, loss on trade receivables was recognised amounting to EUR 1,022,682 as insolvency firm. This amount corresponds mostly to the termination of the agreement with ITV. In addition, an impairment loss on trade receivables was recognised amounting to EUR 104,917 due to the estimation of the risk of defaults in the balance of existing clients and debtors.

Impairment adjustments to trade receivables are recognised and reversed in “Losses from impairment of and changes in provisions for commercial transactions” in the income statement. The Directors estimate that the effect of deducting the balances that are more than three months old is not significant. Amounts charged to the impairment account are normally written off when no more cash is expected to be recovered.

The other accounts included in “Loans and receivables” are not impaired.

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 Company does not maintain any guarantee as insurance.

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

12. Derivative financial instruments

	2011	2010
Interest rate swaps-clash flow hedges	5,999	33,784
Total	**5,999**	**33,784**
Less non-current portion	5,999	33,784
Non-current	**5,999**	**33,784**
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.

The notional principal on interest rate swaps outstanding at December, 31st 2011 was EUR 500,000.

At 12.31.11, fixed interest rate is 3.80%. The floating interest rate was 12M Euribor. Gains/ losses recognised in equity under "Value changes adjustments" on interest rate swaps at 12.31.11 will be transferred to the income statement on a consistent basis until the relevant bank loans are repaid.

13. Creditors and payables

Euro

	2011	2010
Non-current creditors and payables		
-Bank loans	543,593	1,697,501
-Participating loans	-	250,000
-Other loans	2,500,000	
-Debentures and bonds	1,771,536	1,594,540
-Payables transformable into grants	46,469	96,469
Total non-current creditors and payables	**4,861,598**	**3,638,510**
Current creditors and payables		
-Bank loans	1,327,467	1,354,165
-Other payables to banks	323,707	722,653
-Debentures and bonds	29,840	30,489
-Trade creditors	907,775	1,311,596
-Fixed assets creditors	52,879	250,231
-Participating loans	375,000	350,000
-Interest debt	32,758	1,814
-Current account with related parties	-	171
-Wages and salaries pending of payment	32,996	519
-Advances from clients	30,367	13,000
Total current creditors and payables	**3,112,789**	**4,034,638**
Total	**7,974,388**	**7,673,148**

Figures are restated for the previous year by failing to consider tax administration accounts with assets or liabilities, because while they are a right to payment or a payment obligation not arising from a contractual relationship.

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.

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

	2011	2010
		Euro
Euro	7,772,088	7,588,418
US dolar	186,735	66,039
Pound sterling		2,205
Argentine peso	1,120	-
Brazilian real	12,950	
Yuan	1,495	2,718
Mexican peso	-	768
Total	**7,974,388**	**7,660,148**

a) Bank borrowings

The details of the Company's balances with credit institutions at December, 31st 2011 are as follows:

	Non-current balance	Current balance	Total
			Euro
Loans	543,593	1,327,467	1,871,060
Total loans	**543,593**	**1,327,467**	**1,871,060**

	Non-current balance	Current balance	Total
			Euro
Credit facilities	-	323,707	323,707
Total credit facilities	**-**	**323,707**	**323,707**
Interest on current bank borrowings	-	-	-
Total interest on current bank borrowings	**-**	**-**	**-**
TOTAL	**543,593**	**1,651,174**	**2,194,767**

At December 31st, 2011, the Company has two lines of credit with a limit of euro 150,000 and euro 300,000.

b) Participating loans

The Company has two participating loans with fixed annual interest rates of Euribor plus 0.25 percent and floating annual interest defined in the contract as a percentage of before-tax results on the average shareholders' equity for the year, less the fixed interest paid, provided that the results are positive. If the Company generates before-tax losses, the variable rate is 0%.

The maturity dates on the loans are as follows:

	Euro
2012	375,000
	375,000

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	12/11/2013
Amortisation system	Par

d) Other loans from private institutions

On February 4th, 2011, the Company signed a loan with a private entity for an amount of euro 2,500,000. The contract with the entity establishes a shared-based payments (Note 19)

14. Cash and cash equivalents

At 12.31.11, the Company's cash situation was as follows:

		Euro
	2011	**2010**
Cash at bank and in hand	24,993	374,499
Other cash equivalents	826	-
Total	**25,819**	**374,499**

15. Capital and share premium

a) Capital

		Euro
	2011	**2010**
Registered capital	2,445,677	2,445,677
(Uncalled capital)	-	-
Total	**2,445,677**	**2,445,677**

At 12.31.11, the registered capital consisted of 24,456,768 ordinary bearer shares represented by book entries with a par value of €0.10 each, fully subscribed and paid in.

At 12.31.11, the share capital was broken down as follows:

Shareholder	% Interest
Jomaca 98, S.L.	71.56%
Stock market and other	26.07%
Treasury shares	2.37%
Total	**100.00%**

The Company´s shares are listed on the Spain´s Alternative Investment Market (Mercado Alternativo Bursatil -MAB).

b) Share premium account

This reserve is freely available for distribution.

	2011	2010
		Euro
Share premium	9,570,913	9,570,913
Total	**9,570,913**	**9,570,913**

This caption also reflects, for both 2010 and 2011, the merger premium generated in fiscal year 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

a) Reserves

	2011	2010
		Euro
Legal and statutory		
-Legal reserve	237,262	237,262
Total legal reserve	237,262	237,262
Other reserves		
-Voluntary reserve	1,672,369	1,672,369
-Reserves for other adjustments	(758,108)	(733,982)
Total other reserves	914,261	938,387
Total	**1,151,523**	**1,175,649**

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

This year, 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:

		Euro
	2011	
	Number of shares	Euro
Starting balance	206,314	347,303
Additions	511,605	834,661
Disposals	(138,552)	(231,404)
Ending balance	**579,367**	**950,560**

The treasury stock in the Company's possession at 12.31.11 represented approximately 2.37% of the share capital with a nominal value of EUR 57,937 and an average acquisition price of EUR 1.64 per share. The average sale price of the Company's treasury stock at December, 31st 2011 was EUR 1.67 per share.

18. Profit/(loss) for the year

a) Profit /(loss) for the period

The proposal to be presented to the General Shareholders' Meeting regarding the distribution of profits and reserves is as follows:

		Euro
	2011	**2010**
Available for distribution		
Profit/(loss) for the year	(130,919)	(2,298,387)
Total	**(130,919)**	**(2,298,387)**
Application		
To prior-year losses	(130,919)	(2,298,387)
Total	**(130,919)**	**(2,298,387)**

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 shall be entitled to all beneficiaries of plan will be of 1,200,000 shares.

-The plan will last 5 years having the beneficiaries 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 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 December 31st 2011, 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. 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.

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	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

The changes in grants are analyzed below:

	2011	2010
		Euro
Opening balance	79,748	112,500
Increases	50,000	-
Release to income	(15,609)	-
Other decreases	(8,598)	(32,752)
Closing balance	**105,542**	**79,748**

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 of 25% (see Note 21).

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

21. Deferred tax

Set out below is an analysis of deferred tax:

Euro	Additions 2011	Additions 2010	Prior years	Total
Tax credits for tax-loss carryforwards	176,171	753,749	802,183	1,732,103
Other tax credits	484,481	7,652	2,365,422	2,857,555
Deferred tax assets	**660,651**	761,401	**3,167,605**	**4,589,657**
Temporary differences related to income recognized directly in equity	(8,598)	10,917	(37,500)	(35,181)
Temporary differences-amortisation	(5,535)	(13,092)	-	(18,627)
Reversal of temporary differences-amortisation	2,607	-	-	2,607
Deferred tax liabilities	**(11,525)**	**(2,175)**	**(37,500)**	**(51,201)**
Deferred tax	**649,126**	**759,226**	**3,130,105**	**4,538,457**

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. In 2011 the Company did not compensate any deferred tax assets or liabilities.

The changes in deferred taxes are as follows:

	2011	2010
		Euro
Opening balance	**3,889,331**	**3,130,105**
Tax effect on income recognizes directly in equity	(8,598)	10,917
Charged to the income statement (Note 23)	657,724	748,308
Closing balance	**4,538,457**	**3,889,330**

Deferred tax assets are recognised for tax loss carryforwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The taxable bases pending compensation at December, 31st 2011, totalled EUR 6,928,409.

The Company capitalised the deductions pending application in the amount of EUR 484,481.

22. Income and expense

a) Transactions denominated in foreign currency

Transactions carried out in foreign currency are as follows:

Euro	2011	2010
Sales	1,897,334	1,338,082
Services rendered	819,331	558,689
Total	**2,716,664**	**1,896,771**

The breakdown for exchange differences are as follows:

Euro	2011	2010
Arising during the year	(55,266)	(15,853)
Arising for closing balances	45,289	9,529
Total	**(9,977)**	**(6,324)**

b) Turnover

Revenues from the Company's ordinary activities may be analysed geographically as follows:

Market	2011	2010
Domestic	37.30%	50.00%
International	62.70%	50.00%
Total	**100.00%**	**100.00%**

Similarly, net turnover can be analysed by product line as follows:

Line	2011	2010
Trademark licenses	83.26%	87.46%
Interactive/on line contents	16.05%	10.34%
Other	0.69%	2.19%
Total	**100.00%**	**100.00%**

Percentages are restated the prior year due to changes in the product line structure.

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	2011	2010
Raw materials and consumables	416,352	248,955
Total	416,352	248,955

d) Other operating expenses

The caption titled "other operating expenses" comprises the following items:

Euro	2011	2010
Leases	293,932	280,221
Repairs	54,537	85,479
Independent professional services	2,095,163	1,795,760
Insurance	46,044	31,016
Bank fees	28,975	20,142
Advertising and public relations	632,642	255,710
Utilities	112,683	110,474
Other general expenses	369,140	328,075
Other taxes	10,534	12,987
Impairment losses on commercial transactions	104,917	-
Losses on commercial transactions	1,022,691	12,760
Reversal of impairment losses on commercial transactions	(20,731)	(55,000)
Total	**4,750,528**	**2,877,625**

e) Staff expenses

Euro	2011	2010
Wages, salaries and similar remuneration	2,524,948	2,477,301
Social Security	640,885	708,665
Other expenses	154,073	148,429
Total	**3,319,905**	**3,334,395**

The average number of employees by category during the year was as follows:

CATEGORY	Average number of employees	
	2011	2010
5-YR DEGREE HOLDER	26.67	27.90
3-YR DEGREE HOLDER	4.81	6.00
SR.MANAGER	6.83	5.00
MANAGER 1	1.52	2.00
MANAGER 2	1.00	1.00
OFFICIAL 1	15.11	12.63
OFFICIAL 2	4.42	6.10
ASSISTANT	2.52	1.50
PROGRAMMER	2.14	3.00
OPERATOR	4.30	5.00
OFFICIAL 1	0.50	1.50
Total	**69.82**	**71.63**

The distribution of the Company’s personnel at the year end, by gender and category, is as follows:

CATEGORY	2011		2010	
	Men	Women	Men	Women
5-YR DEGREE HOLDER	14.00	15.00	16.00	12.00
3-YR DEGREE HOLDER	4.00	1.00	6.00	-
SR.MANAGER	4.00	3.00	3.00	2.00
MANAGER 1	-	1.00	2.00	-
MANAGER 2	1.00	-	1.00	-
OFFICIAL 1	16.00	5.00	11.00	2.00
OFFICIAL 2	3.00	-	5.00	2.00
ASSISTANT	-	2.00	-	2.00
PROGRAMMER	2.00	-	3.00	-
OPERATOR	4.00	1.00	5.00	-
OFFICIAL 1	1.00	1.00	1.00	1.00
Total	**49.00**	**29.00**	**53.00**	**21.00**

f) Other operating revenue

The caption titled “other operating revenue” comprises the following items:

Euro	2011	2010
Services rendered to staff	2,047	2,739
Other services	3,800,000	-
Total	**3,802,047**	**2,739**

The amount under “other services” corresponds to the amount invoiced for the final settlement consequence of the completion of the contract with the ITV Global Entertainment. The Company has chosen to include this item under the epigraph “ other operating revenue “ rather than include it the net amount of turnover according to the recommendation of our auditors and taking into account the non-recurrence of this revenue, in order not to distort the comparability of the business figures between this year and the previous one. However, the Company believes this revenue as belonging to the net amount of the turnover of this year, and was invoiced as such and declared to the tax authorities.

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			(130,919)			38,531
	Increases	Decreases		Increases	Decreases	
Corporate Income Tax		(562,624)	(562,624)			
Permanent differences	570	-	570			
Temporary differences:						
arising during the year	-	(22,138)	(22,138)			
arising from previous years	10,429	-	10,429		(38,531)	(38,531)
Offsetting tax-loss carryforwards			-			
Taxable base (tax result)			**(704,683)**			

The permanent differences refer to non-resident tax withholdings abroad.

Income tax expense 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	Tax credits for tax-loss carryforwards	Other credits	Temporary differences	
Charged to the Income Statement							
To continuing operations	-	(95,100)	-	176,171	484,481	(2,927)	562,624
Total	**-**	**(95,100)**	**-**	**176,171**	**484,481**	**(2,927)**	**562,624**

The Company capitalised deductions in the amount of EUR 2,857,555 that had not been capitalised in prior fiscal years and deductions generated in 2011 in the amount of EUR 2,373,074 and EUR 484,481, respectively.

At the end of the last fiscal year ended, December 31st 2011, the Company had tax loss carryforwards to offset in the amount of EUR 6,928,409.

At December, 31st 2011, the Company's corporate tax returns for the years 2007 to 2010 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 2007 to 2011.

The Company estimates that tax credits will recover within a period not exceeding 10 years.

24. Risks

At December, 31st 2011, the Company had no contingent assets or liabilities.

25. Director and senior management compensation

a) Remuneration of the members of the Board of Directors

In 2011, the members of the Board of Directors received no remuneration for sitting on the Board.

In 2011 as in 2010, 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 is committed to 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

In 2011, the Company's senior management staff was paid a total of EUR 1,119,612, while in 2010 the senior management staff received a total of EUR 576,353 in remuneration. Number of senior management staff has increased during 2011.

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

Article 42.3.h) of the Rules of the Board establishes that the Nomination and Remuneration Committee's functions include: 229 ter, 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 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 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	2011		2010	
	Expense	**Income**	**Expense**	**Income**
Jomaca 98, S.L.	341,661	9,450	108,000	8,364
Sonocrew, S.L.	-	78,282	34,853	221,186
Cake Entertainment, Ltd	11,611	874	-	-
Total	**353,272**	**88,606**	**142,853**	**229,550**

The income earned by Sonocrew reflects the revenues from business operations while the income shown for Jomaca reflects the financial income on a short term loan granted to that company in the amount of EUR 422,512 (Note 11).

The expenses invoiced by Jomaca 98, S.L. refer to management services rendered by the company.

Expenses and income from Cake Entertainment, Ltd, correspond to re-invoicing of expenses.

Transactions with associates are carried out under normal market terms and conditions.

Closing balances with related-parties

Euro	2011		2010	
	Debit	Credit	Debit	Credit
Current account with subsidiaries				
Sonocrew, S.L.	156	-	134	-
Producciones y Licencias Plaza de España, S.A. de C.V.	193	-	218	-
Advance to trade payable				
Jomaca 98, S.L.	-	-	13,620	-
Advance from trade receivable				
Sonocrew, S.L.	-	30,367	-	-
Trade receivable				
Cake Entertainment, Ltd	874	-	-	-
Trade payable				
Cake Entertainment, Ltd	-	11,611	-	-
Short-term loans				
Jomaca 98, S.L.	440,325	-	380,876	-

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 fiscal year 2011, there were no major environmental expenditures.

28. Events after the balance sheet date

On February 27th 2012, the Company has proceeded to the sale of 300,000 shares having an effect on equity of Euro 533,509 under the epigraph " Treasury Shares " and a loss of Euro 144,834 in "Reserves".

29. Auditors' fees

The professional fees charged by Garrido Auditores, S.L. for auditing and other services for the company totalled EUR 8,000 in 2011.

The Company also paid fees in the amount of EUR 32,283 to Garrido Abogados y Asesores Fiscales, S.L. during the same period.

30. Other disclosures

The Group is controlled by Jomaca 98, S.L., which owns 71.56% 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.

Impact of International Financial Reporting Standars in the Annual Accounts.

The article 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 Standars adopted by the European Union Regulations (IFRS-EU) indicating the evaluation criteria applied.

The Company, in the current year, submit consolidated financial statements, so it does not apply the above.

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 this law, at the end of the year the Company had a balance payable to suppliers in the amount of EUR 141,789 which had exceeded the legally-established payment deadline. During year 2011, the Company made payments to suppliers amounting to EUR 3,900,000, which 10% exceeded legal limit. The weighted average term of payment amounts to 118 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

The Company has two guarantees from Avalmadrid SGR in the amount of EUR 1,000,000 and EUR 2,000,000, both as collateral on the loans taken out with Caja Madrid in the same amounts (Note 13).

32. Signed Financial Statements

These Annual Accounts are signed by the members of the Board of Directors, at the time of the Board of Directors meeting held in Madrid on March, 22nd 2011.

ZINKIA ENTERTAINMENT, S.A.
DIRECTORS' REPORT 2011

Business Performance and Company Situation

The year 2011 is conditioned mainly by the agreement with ITV Global Entertainment Ltd. which puts an end to the economic and trade relationship maintained until April last year. Under this agreement, Zinkia becomes the exclusive distributor of all rights and licenses of Pocoyo and this is a very important milestone, because since that moment, Zinkia can implement global strategies that enable it to achieve the goals outlined in business plans of the company and undertake the process of the geographical diversification of the sources of income, so that in the current climate we live in, have a lower dependence on certain geographic areas.

The purpose of this agreement have already begun to show positive during the year 2011, having an increase in the amount of the net turnover by 15% from euro 3,945,305.62 in 2010 to euro 4,520,766.92 in 2011.

The interactive content area is starting to gain more weight in the amount of turnover, and the Company is working to get this weight increase and reach numbers for the coming years.

In this sense, we wish to emphasize also the increase under other operating income, which shows an amount of euro 3,802,047.30 in 2011, compared to euro 2,739.37 the previous year. Following the recommendation of our auditors, we have chosen to include in this item, the amount of the settlement of rights reached in the agreement with ITV Global Entertainment Ltd. The Company believes that this amount is part of its turnover, and, as explained in notes to the Financial Statements of this year, t has been declared against the tax authorities , but in view of their non-recurrence has chosen to classify this amount in the item specified.

The operating costs of the Company during the year 2011 follow their usual behaviour and adjusted in a manner consistent with the evolution of income, so that both, the general and personnel cost remained significantly below budget.

As result of all these factors, there has been a very remarkable improvement in EBIT, from a negative EBIT of more than 2.7 million in 2010 to a positive EBIT of EUR 113,695.07 in 2011.

During the previous year, the situation in financial markets continued to be just as restrictive, in terms of access to credit for companies, as has become the trend of recent years, so the Company continues to seek appropriate funding ways can be used for implementation of investment projects.

It is true that the working capital casts a negative figure of euro 1.4 million at the end of last year, mainly due to investments and the maturities of existing debt of the company.

In this sense Zinkia spent months working on finding appropriate funding sources, both with potential new funders, as with financial institutions with they are already working. Likewise, also are examining all possible options to generate additional liquidity, in every way, so as to generate the necessary financial resources to meet all commitments of the Company and to undertaken investment projects of the Business Plan.

It is also true, that the company´s financial position continues to show a rather balanced, with revenues of euro 8,796,564.06 net worth of debt against a total of euro 8,560,682.02.

Events after the date of these Financial Statements

Between the date at these financial statements were made, and the date of preparation thereof, no events have occurred that are worthy of mention or have a significant influence, unless the sale of 300,000 shares of treasury stock that the company held.

Outlook for the Company

For the years 2012 and the following ones, is still expected a substantial increase in the turnover of the Company based on Pocoyo entry into new markets and develop new audiovisual content and brands.

The agreement with ITV Global Entertainment Ltd., which recovers the distribution of Pocoyo worldwide, coupled with making the 51% stake in society Cake Entertainment Ltd, London-bases Production Company specializing in the selection and international distribution of series aimed all children and family, allow us to continue to maintain these expectations for the coming years.

Throught this acquisition Zinkia seeks to achieve synergies in the world of children´s entertainment between the distribution, brand management and production.

With regard to new projects, the Company is still working on its development and the achievement of commercial and financial agreements that allow the entry into production.

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

The Company undertakes hedging interest rate to reduce the impact on the income statement fluctuations in interest rates.

Acquisition of treasury shares

Under the article 262 of the Corporate Enterprises Act and considering the content of Title IV, Chapter VI of that text, the Company has acquired during the year, 511,605 shares, according with the liquidity agreement we signed with Banesto Bolsa, SVB, S.A which holds the set of agent liquidity Zinkia after our joining the Alternative Investment Market (MAB), and to meet the commitments made in the financing transaction amounting to euro 2.5 million formalized in February 2011 and acquired by the Company voluntarily. Also during the year 2011, alienate 138,552 values of the previously acquired, having obtained a negative result overall in these operations of euro 24,126 registered as a deduction from equity in the Balance. At December 31st

2011 are held by the Company 579,367 shares with a nominal value of euro 57,936.70, representing 2.37% of share capital.

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 2011, formulated by the Board of Directors at the meeting held on March, 22nd 2012 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 22nd 2012

Mr. José María Castillejo Oriol

Mr. Alejandro Ballestero de Diego

Mr. Alberto Delgado Gavela

Mr. Juan José Güemes Barrios

Mr. Miguel Valladares García

JOMACA 98, S.L., represented by
Mr.Iñigo Mencos Valdés

APPENDIX II

ISSUERS OF SECURITIES TRADED ON REGULATED SECONDARY MARKETS OTHER THAN SAVINGS BANKS

IDENTIFICATION OF ISSUER FISCAL YEAR 2011

TAX ID NUMBER: A82659061

Name:

ZINKIA ENTERTAINMENT, S.A.

Registered Office:

CALLE INFANTAS, 27, 1

MADRID

MADRID

28004

SPAIN

ANNUAL CORPORATE GOVERNANCE REPORT MODEL

FOR LISTED COMPANIES

For a better understanding of the model and subsequent preparation of the report, please read the instructions provided at the end before filling it out.

A. OWNERSHIP STRUCTURE

A.1. List the Company's most significant partners or shareholder as of the end of the fiscal year:

Name of shareholder or partner	% of share capital owned
JOMACA 98, S.L.	71,56
MIGUEL FERNANDO VALLADARES GARCÍA	4,78
ALBERTO DELGADO GAVELA	3,58

A.2. State, as applicable, any family, commercial, contractual or corporate relationships between the owners of significant holdings, insofar as these are known by the company, unless irrelevant or arising from ordinary trading or exchange activities:

Shareholder or partner	Type of relationship	Brief description

A.3. State, as applicable, any commercial, contractual or corporate relationships between owners of significant holdings and the company and/or its group, unless irrelevant or arising from ordinary trading or exchange activities:

Shareholder or partner	Type of relationship	Brief description
JOMACA 98, S.L.	Contractual	LOAN GRANTED BY ZINKIA ENTERTAINMENT, S.A. TO JOMACA 98, S.L.

B – COMPANY MANAGEMENT STRUCTURE

B.1. Board of Directors

B.1.1 List the maximum and minimum number of directors included in the articles of association:

Maximum number of directors	10
Minimum number of directors	3

B.1.2 Complete the following table on the members of the Board of Directors or governing body:

MEMBERS OF THE BOARD OF DIRECTORS/GOVERNING BODY

Name of director of member of governing body	Representative	Date of last appointment	Title
JOSÉ MARÍA CASTILLEJO ORIOL		26.05.2009	EXECUTIVE DIRECTOR
MIGUEL FERNANDO VALLADARES GARCÍA		26.05.2009	EXTERNAL PROPRIETARY DIRECTOR
JOMACA 98, S.L.	IGNACIO MENCOS VALDÉS	26.05.2009	EXTERNAL PROPRIETARY DIRECTOR
ALBERTO DELGADO GAVELA		26.05.2009	EXTERNAL PROPRIETARY DIRECTOR
ALEJANDRO FRANCISCO BALLESTERO DE DIEGO		26.05.2009	EXTERNAL PROPRIETARY DIRECTOR
JUAN JOSÉ GÜEMES BARRIOS		05.05.2010	EXTERNAL INDEPENDENT DIRECTOR
MARIANO MARTÍN MAMPASO		05.05.2010	EXTERNAL INDEPENDENT

			DIRECTOR

B.1.3. List any Directors or members of the governing body who hold office as directors or executives in other companies belonging to the listed Company's group:

Name of the Director or member of the governing body	Name of Group company	Title
JOSÉ MARÍA CASTILLEJO ORIOL	SONOCREW, S.L.	SOLE DIRECTOR
JOSÉ MARÍA CASTILLEJO ORIOL	CAKE ENTERTAINMENT, LTD	DIRECTOR

B.1.4 Complete the following table on the aggregate remuneration paid to directors or members of the governing body during the year:

Salary item	Individual (€'000)	Group (€'000)
Fixed remuneration	335	0
Variable remuneration	250	0
Per diems	0	0
Other	0	0
Total:	585	0

B.1.5 List the members of senior management who are not directors or members of the governing body and state total remuneration paid to them during the year:

Name or corporate name	Title
IGNACIO PASTOR GILI	MANAGING DIRECTOR
MARIA DOOLAN	BUSINESS DEVELOPMENT AND BRAND MANAGER
SONSOLES SEOANE GARCIA	GENERAL COUNSEL
INES ROVIRA GARCIA	GENERAL COUNSEL
LOREA GARCIA JAUREGUI	GENERAL COUNSEL
JULIO COVACHO LOPEZ	FINANCE MANAGER
MARIA ITURRIAGAGOITIA BUENO	HUMAN RESOURCES MANAGER
FERNANDO BARRENECHEA FERNANDEZ	MARKETING MANAGER

BRUNO MUNIESA CHURRUCA	PRODUCTION MANAGER
Total senior management remuneration (in thousands of euros)	535

B.1.6. State whether the articles of association or Board regulation establish a limited mandate for the Directors or members of the Board of Directors:

No.

B.1.7 State, if applicable, the person(s) who certified the company's individual and consolidated financial statements for preparation by the Board:

No

Name or corporate name	Title

B.1.8. Explain the mechanisms, if any, established by the Board of Directors or governing body to prevent the individual and consolidated financial statements it prepares from being submitted to the General Meeting with a qualified Audit Report.

According to the part 3 of article 39 of the Rules of the Board, the Board of Directors must formulate the definitive annual accounts in such a way that there will be no objections by the auditors. However, when the Board considers that it must remain firm in its position, it will explain and the scope and content of the discrepancy.

B.1.9. Is the Secretary of the Board a director?

No.

B.1.10. State the mechanisms, if any, established by the Company to preserve the independence of the auditors, of financial analysts, of investment banks and of rating agencies.

According to Article 13 of the Board Rules, the Audit Committee is in charge of the relations with external auditors, for receiving information on the issues which could jeopardise the independence of external auditors and other matters related to the account auditing process, as well as any other communications foreseen in auditing laws and technical auditing standards.

B.2. Committees of the Board of Directors or Governing Bodies

B.2.1. List the committees:

	Number of member	Functions

AUDIT COMMITTEE	3	DETAILED IN POINT B.2.3

B.2.2. Provide details on all committees of the Board or governing bodies and their members:

EXECUTIVE COMMITTEE

Name or corporate name	Title

AUDIT COMMITTEE

Name or corporate name	Title
JUAN JOSÉ GÜEMES BARRIOS	CHAIRMAN
JOMACA 98, S.L.	DIRECTOR - SECRETARY OF THE COMITTEE
ALBERTO DELGADO GAVELA	DIRECTOR

APPOINTMENTS AND REMUNERATION COMMITTEE

Name or corporate name	Title

STRATEGY AND INVESTMENT COMMITTEE

Name or corporate name	Title

B.2.3. Describe the organisation and operation of each committee of the Board or governing body and the responsibilities assigned to each one. Where applicable, describe the powers vested in the CEO.

AUDIT COMMITTEE

According to article 13 of the Board of Directors Rules of ZINKIA ENTERTAINMENT, S.A., the Audit Committee shall be composed of a minimum of three (3) and a maximum of five (5) directors appointed by the Board of Directors a majority of whom shall be non-executive directors and at least one of whom shall be and independent director. To this end, executive directors shall be understood as directors who performance managerial functions within the Company or any group company.

The Chairman of the Audit Committee shall be elected from among the non-executive directors for a four-year term but may be re-elected one year after the end of his/her last term of office.

All members of the Audit Committee and the Chairman in particular shall be appointed based on their knowledge of accounting and auditing. Committee members shall serve for four years and may be re-elected one year after the end of their previous term of office. Committee members shall step down when they cease to be company Directors or at the request of the Board of Directors.

The Audit Committee shall ordinarily meet every six months to review the periodic financial information to be forwarded to the stock market authorities, including forecasts, and the information and documentation to be approved and published by the Board of Directors each year. The Committee shall also meet as convened by the Chairman, who must do so whenever the Audit Committee is asked by the Board or the Chairman to draft a report or adopt proposals. The Committee shall also meet at the request of any member of the Committee and as required for the proper performance of the Committee's functions.

Notwithstanding any other responsibilities that may be assigned by the Board at any time, the basic functions of the Audit Committee include:

- Reporting to the General Meeting of Shareholders on the issues raised by shareholders which fall under its jurisdiction.
- Proposing to the Board of Directors for approval by the General Meeting of Shareholders the appointment of the external auditors referred to in article 204 of the Public Limited Companies Act along with the hiring conditions, the scope of their professional mandate or the revocation or non-renewal of the mandate.
- Supervising internal audit systems; ensuring their independence and effectiveness.
- Reviewing the Company's accounts to ensure that all legal requirements are being met and that accounting principles are being properly applied, in direct collaboration with the Company's internal and external auditors.
- Supervising the preparation process and the integrity of the Company's or Group's financial information, ensuring that all regulatory requirements are met and that all accounting standards are being properly applied; overseeing and supervising the Company's internal control systems, verifying their adequacy and integrity; reviewing the appointment or replacement of the persons responsible for these systems.
- Periodically reviewing internal risk management and control systems to ensure that the main risks are being properly identified and managed.
- Liaising with external auditors, receiving information on the issues which could jeopardise the independence of external auditors and other matters related to the account auditing process, as well as any other communications foreseen in auditing laws and technical auditing standards.

- Supervising compliance with the auditing contract, ensuring that the auditors' opinion on the annual accounts and the contents of the audit report are written clearly and precisely and evaluating the audit results.
- Reviewing the financial information that is released by the Board to the markets and supervisory bodies periodically, ensuring that the interim accounts are drafted using the same accounting standards as are used for the annual accounts.
- Examining compliance with the Internal Code of Conduct, these regulations and the Company's other rules of governance and making proposals for improvements.
- Reporting to the Board of Directors prior to the adoption by the Board of decisions on the following matters:
    a) The creation or acquisition of shares in special purpose entities or entities domiciled in tax haves and any other transactions or operations of a similar nature which, due to their complexity, could impair the Group's transparency and
    b) Related-party transactions.

CHIEF EXECUTIVE OFFICER

The CEO is vested with all of the powers vested in the Board of Directors according to the Articles of Association and the law.

B.2.4. State the number of meetings held by the Audit Committee during the year:

Number of meetings	2

B.2.5. If there is an Appointments Committee, state whether all of its members are Directors or external members of the governing body.

C. RELATED-PARTY TRANSACTIONS

C.1. List any relevant transactions entailing a transfer of assets or liabilities between the company or its group companies and the significant shareholders in the company:

Name or company name of significant shareholder	Name or company name of the Group company or enterprise	Type of relationship	Type of transaction	Amount (in thousands of euros)
JOMACA 98, S.L.	ZINKIA ENTERTAINMENT, S.A.	CONTRACTUAL	LOAN GRANTED BY ZINKIA ENTERTAINMENT, S.A. TO JOMACA 98, S.L.	50

C.2. List any relevant transactions entailing a transfer of assets or liabilities between the company or its group companies and the company's managers or directors:

Name or company name of managers or directors	Name or company name of the Group company or enterprise	Type of relationship	Type of transaction	Amount (in thousands of euros)
JOMACA 98, S.L.	ZINKIA ENTERTAINMENT, S.A.	CONTRACTUAL	LOAN GRANTED BY ZINKIA ENTERTAINMENT, S.A. TO JOMACA 98, S.L.	50

C.3. List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose object and conditions set them apart from the company's habitual trading activities:

Name of Group enterprise	Brief description of the transaction	Amount (in thousands of euros)

C.4. Identify any conflicts of interest affecting company Directors pursuant to Article 127.3 of the Spanish Companies Act.

There were not conflicts of interest affecting Company directors according to the terms of the Revised Text of the Capital Companies Act.

C.5. List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its Directors, management or significant shareholders.

The Company has established the following mechanisms which are set out in article 29 of the Rules of the Board of Directors.

1. The Director must inform the Board of Directors of the existence of a conflict of interest (direct or indirect) and must abstain from attending or participating in the debates on matters in which he or she has a personal conflict interest.

2- The Director shall communicate to the Board any interests or shares that he or she may (directly or indirectly through the persons who are considered related parties to the legal entity Director or its representatives as set in article 231 of the Capital Companies Act) have in other entities with the same, similar or analogue activity and they shall communicate as well the corporate positions he or she may hold in those companies.

3. These situations of Conflict of Interest shall be included in the Annual Information to be released.

D. RISK CONTROL SYSTEMS

D.1. Give a general description of risk policy in the company and/or its group, detailing and evaluating the risks covered by the system, together with evidence that the system is appropriate for the profile of each type of risk.

The Company has systems in place to control the risks to which it is exposed which are based on identifying and evaluating the risk factors that can in some way affect the fulfilment of the Company's objectives.

The Company is exposed to diverse financial risks: market risk, credit risk and liquidity risk. The Company's risk management programme focuses on the uncertainty of financial markets and tries to minimise the potentially adverse effects on financial yields. The Company uses derivatives to hedge certain risks.

The management of these risk factors is controlled by the Company's Finance Department, which identifies, evaluates and covers the financial risks according to the policies approved by the Board of Directors. The Board provides guidelines for overall risk management and for specific areas such as exchange rate risk, interest rate risk, liquidity risk, use of derivatives and non-derivatives and investing excess liquidity.

Moreover, the Audit Committee reviews the internal audit and risk management systems periodically to ensure that the main risks are being duly identified, managed and made known.

D.2. State the control systems established to evaluate, mitigate or reduce the main risks faced by the Company and Group.

Market Risk

(i) Exchange rate risk

The Company operates internationally and is therefore exposed to exchange rate risks associated with transactions in foreign currencies, particularly the US dollar and the pound sterling. Exchange rate risk arises from future trade operations, recognised assets and liabilities and net investments in foreign operations.

To manage the exchange rate risk that arises from future trade operations and recognised assets and liabilities, the Company uses futures contracts which are negotiated by the Finance Department. The exchange rate risk arises when the future trade operations or the recognised assets and liabilities are denominated in a currency other than the Company's working currency.

(ii) Price Risk

The Company is not exposed to capital price risks because there are not investments maintained by the Company and classified on the balance sheet as available for sale or at fair value with changes in profit and loss. The Company is not exposed to commodity price risks.

(iii) Interest rate risks on cash flows and fair value

Because the Company does not possess any significant remunerated assets, the income and cash flow from its operations are largely unaffected by fluctuations in market interest rates.

The Company's interest rate risk arises from its non-current bank borrowings. The floating interest loans taken out by the Company expose it to interest rate risk on cash flows. The fixed interest loans taken out by the Company expose it to interest rate risks affecting fair value.

The Company analyses its exposure to interest rate risks dynamically by simulating a number of scenarios which take refinancing, renewal, alternative financing and hedging into account. Based on the results of these simulations, the Company calculates the effects which a change in interest rates would have on profits. For each simulation we use the same variation in the interest rate for all currencies. These scenarios are only simulated for the liabilities representing the most relevant interest-accruing positions.

Based on the different scenarios, the Company manages the interest rate risk affecting cash flows by taking out floating-to-fixed interest rate swaps. The economic effect of these interest rate swaps is that the floating interest bank borrowings are converted to fixed interest. Generally speaking, the Company's non-current bank borrowings come with floating interest rates and the interest rates on the swaps are lower than the rates that the Company would have been able to obtain directly from the credit institution. Under these interest rate swaps, the Company undertakes with other parties to exchange, at certain intervals (usually quarterly), the difference between the fixed and floating interest rates, calculated on the notional principals.

Credit Risk

Credit risk is managed by groups. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions as well as from wholesale and retail clients, including outstanding accounts receivables and committee transactions. As far as banks and financial institutions are concerned, the Company only works with the most reputable and solvent ones.

Liquidity Risk

Prudent liquidity risk management implies having sufficient cash and negotiable securities, having financing available by maintaining sufficient credit facilities and having the ability to liquidate market positions. Given the dynamic nature of the underlying business, it is the responsibility of the Company's Finance Department to ensure flexible financing by having sufficient credit facilities available to the Company.

D.3. If any of the risk to which the Company and/or its group are exposed materialised during the year, state the surrounding circumstances and whether or not the established control systems worked.

No risks materialised in 2011 which had a significant impact on the Company.

D.4. State whether there is a committee or other governing body in charge of establishing and supervising these risk controls and describe its functions.

The Board provides guidelines for overall risk management and for specific areas such as exchange rate risk, interest rate risk, liquidity risk, use of derivatives and non-derivatives and investing excess liquidity.

According to article 5.1.g.vii., the Board of Directors approves the risk management and control policies and periodically follows up on internal reporting and control systems.

Moreover, the Audit Committee reviews the internal risk control and management systems periodically to ensure that the main risks are being duly identified, managed and made known, as established in article 13.2.f of the Rules of the Board of Directors.

E. THE GENERAL MEETING OR EQUIVALENT BODY

E.1. State the quorum that is required to convene the General Meeting or other governing body according to the Articles of Association. Describe how this differs from the minimum numbers set out in the Public Limited Companies Act or other applicable laws.

As stated in article 10 of the Articles of Association, the General Meeting is governed by the terms of the law, by the Articles of Association and by the General Meeting Rules.

Article 15 of the General Meeting Rules states that: "The General Meeting shall be validly convened on first call when the shareholders present or represented account for at least twenty-five percent of the subscribed capital with voting rights. On second call, the meeting may be validly held regardless of the share capital in attendance.

In order for the ordinary or extraordinary General Meeting to pass resolutions on capital increases or decrease or any other amendment of the articles of association, bond issues, the elimination or limitation of preferred acquisition rights to new shares, the transformation, merger, spin-off or assignment of the Company's assets and liabilities or moving the Company's registered address to a foreign country, the shareholders present or represented on first call must account for at least fifty percent of the subscribed capital with voting rights. On second call, twenty-five percent of the share capital with voting right shall suffice. However, if the shareholders present or represented account for less than fifty percent of the share capital with voting rights, the resolutions referred to in this paragraph can only be validly passed with the favourable vote of two-thirds of the capital present or in represented at the General Meeting.

Absences that occur once the General Meeting has been called to order have no effect on the holding of the meeting.

The quorum information contained in the General Meeting Rules does not differ from that set forth in the Capital Companies Act.

E.2. Explain the system for passing business resolutions. Describe how it differs from the system set out in the Public Limited Companies Act or other applicable laws.

As stated in article 13 of the Articles of Association and article 26 of the General Meeting Rules, resolutions must be passed by majority except in those cases where a higher majority is required by law or by the articles of association. This does not differ from the system described in the Capital Companies Act.

E.3. List the rights of shareholders or partners in relation to the General Meeting or equivalent governing body.

The shareholders' rights are as follows as stated in the Rules of the General Meeting:

Article 6. Convening the General Meeting

"Notwithstanding the Capital Companies Act regarding the convening of the General Meeting, the General Meeting shall be convened by the governing body.

The Ordinary General Meeting shall be convened by the governing body in the six first months of each Fiscal Year. The General Meeting shall be deemed valid even if it's convened or it's held out of term.

A General Meeting shall also be convened by the governing body at the request of shareholders controlling at least five percent of the share capital, expressing the matters to be addressed at the General Meeting. In this case, the General Meeting must be convened within thirty days of the notarised request being received by the governing body. The governing body must also include the matter or matters stated in the request on the meeting agenda."

Article 7. Announcement of the General Meeting

"Both ordinary and extraordinary General Shareholders' Meetings shall be convened by means of a notice published in the Trade Registry Official Gazette and in the official website of the Company (www.zinkia.com), or as otherwise established by law, at least one month before the specified date of the meeting, except when a longer term is established by law. The governing body shall consider the possibility of publishing the notice of meeting through other means of communication.

The notice of meeting shall specify the nature of the meeting (ordinary or extraordinary), the venue, the date convened upon first call as well as any matters to be discussed thereat. In addition, the notice shall notify of the date when, if applicable, the General Shareholders' Meeting would be held upon second call. Between the first and the second meeting there shall be a period of at least twenty-four hours. Insofar as possible, shareholders shall be advised should there be a higher likelihood that the General Shareholders' Meeting may be held either upon first or upon second call.

The notice of meeting shall list, clearly and succinctly, all matters to be discussed.

The notice shall also contain a mention to the right of shareholders to be represented by another person at the General Shareholders' Meeting, even when such person may not be a shareholder as such, as well as the conditions and procedures required in order to exercise such right, the right to information to be made available to shareholders and how to exercise such right.

The governing body shall include in the notice of meeting a mention to the specific means of remote communication that the shareholders may employ in order to exercise their right to vote directly or by proxy, as well as the instructions on the manner to do so. The Governing body shall also include information regarding the terms and conditions to exercise any shareholders right present at the General Meeting by electronic communications, in case these means are accepted.

Shareholders representing at least five per cent of share capital may request a complement to the notice of meeting of a General Shareholders' Meeting to be published, including one or more items of the agenda. In order to exercise this right, reliable notice shall be sent to the company's registered address within the five days following the notice of meeting being published.

The complement to the notice shall be published at least a fortnight before the date specified for the General Shareholders' Meeting to be held, and shall be communicated through the exact same means, including the Trade Registry Official Gazette, in which the original notice was published.

Failure to publish the complement to the notice of meeting within the term legally specified shall render the General Shareholders' Meeting invalid.

The Company shall send the notice of General Shareholders' Meeting as advertized, including, if applicable, any complements to the notice of meeting, to the Alternative Stock Market, all of which is performed in accordance with the specific applicable rules. Similarly, the text of the notice, including any complements that may be applicable, shall be published on the Company website.

The Board of Directors may require the presence of a notary public to attend the General Shareholders' Meeting and take minutes at the meeting. The above is possible only when the required conditions are met, pursuant to the applicable laws.

Should a General Shareholders' Meeting, being duly convened, not be held upon first call, and should no instance of second call be contained in the notice thereof, the latter shall be published, meeting the same conditions required for the first call, within fifteen days following the date of the General Shareholders' Meeting failing to be held and eight days prior to the date of the meeting.”

Article 9. Right to information prior to the General Meeting

Once the announcement of the General Meeting has been published and up to the seventh day before the date of the General Meeting, shareholders may request information and clarifications from the Board of Directors on the agenda items and raise whatever questions they deem pertinent.

Likewise, shareholders may request additional information or clarification and make pose written questions regarding the public information forwarded by the Company to the Mercado Alternative Bursátil (Alternative Stock Market) since the last General Meeting was held. The Board of Directors shall be obligated to provide the requested information in writing up until the date of the General Meeting.

Requests may be hand delivered at the Company's registered offices, posted to the Company's postal address or sent electronically to the address specified in the meeting announcement. In the absence of such specification, the request may be sent electronically to the Shareholders' Office. In order for the electronic request to be accepted, the document must bear the legally-recognised electronic signature of the person making the request or some other previously-agreed mechanisms which is deemed by the Board of Directors to guarantee the authenticity and identity of the shareholder exercising his/her right to information.

Regardless of the mode of communication used to request information, the shareholder's request must include the full name of the shareholder and the numbering of the shares controlled so that this information may be compared against the list of shareholders and the number of shares assigned to each one by the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (Iberclear) for the General Meeting in question. It is the Shareholder's responsibility to prove that the request was submitted to the Company in the manner described above. The Company's website contains detailed information on shareholders' information rights as stipulated in the applicable laws.

The requests for information regulated in this article must be answered before the General Meeting of Shareholders, once the shareholder's identity and status have been verified.

The Directors are under the obligation to provide the requested information in writing up until the day of the General Meeting, except when:

a. publishing the requested information may, the Chairman's opinion, be harmful to the Company's interests.

b. the request for information or clarification does not refer to any agenda item or to the information available to the public which was forwarded by the Company to the stock market authorities since the date of the last General Meeting.

c. the request for information or clarification is considered abusive or

d. the disclosure is prohibited by legal or regulatory provision or by court order.

However, the exception stated in letter (a) above shall not apply when the request is backed by shareholders representing at least one-fourth of the share capital.

The Board of Directors may authorise any one of its members, the Chairmen of the Board committees or the Secretary of the Board to respond to shareholders' requests for information on behalf of the Board.

The same mode of communication by which the request was received shall be used to respond to the request, unless the shareholder states a different mode of communication from among those available according to this article. The Directors may send the information in question by certified post with acknowledgement of receipt or by Burofax.

The Company may include information on its website relative to the responses provided to shareholders in response to the questions raised in connection with the right to information regulated herein.

Article 10. Attendance rights.

Shareholders may attend the General Meeting regardless of the number of shares they own, provided that they have been accredited as shareholders prior to the Meeting and that they are in possession of the required attendance card or another legal document which accredits them as shareholders. Such documents must state the name, class and series of shares owned by the shareholder and the number of votes the shareholder may cast.

In order to attend the General Meeting, the shares must be duly entered in the share register in the form of account entries at least five days before the date of the General Meeting and shareholders must be in possession of attendance cards or any other legally-permitted document which proves that they are shareholders.

When shareholders exercise their voting rights using distance voting according to the terms set out in article 12 of the Articles of Association and 24 of these Regulations, this condition must also be met at the time of voting.

Furthermore, in order to attend the General Meeting, each shareholder must be in possession of an attendance card, a certificate issued by the participating entity in the Sociedad de Gestión de los Sistemas de Registro Compensación y Liquidación de Valores, S.A. (Iberclear) or any other legally-recognised document which accredits shareholder status.

Shareholders who attend the Meeting personally or through a representative must show their attendance cards at the door at the location where the Meeting is being held, as provided for in this clause.

Shareholders wishing to cast their votes remotely using digital methods must identify themselves and prove their shareholder status as determined by the governing body in the meeting announcement.

Article 12. Representation

Notwithstanding the fact that legal entity shareholders may be represented at the meeting by proxy, any shareholder who is entitled to attend the General Meeting may be represented by a proxy, who may or may not be a shareholder.

Proxies may be revoked at any time. As a rule and as long as the date is known with certainty, the last update by the shareholder prior to the General Meeting shall be considered valid. In the absence of such certainty, the shareholder's vote shall prevail over the delegation. In any event, personal attendance at the meeting by the shareholders shall be considered a revocation of the proxy.

A separate proxy must be issued for each General Meeting, either in writing or using the distance communications methods specifically approved by the governing body in the meeting announcement, provided that the requirements established in the announcement are met and only to the extent that the identities of the principal and proxy can be verified.

The terms of article 108 of the Public Limited Companies Act notwithstanding, a separate proxy must be issued in writing for each General Meeting. Proxies that are issued using remote telecommunications methods shall only be valid when:

a. they are hand delivered or sent by post, forwarding the attendance card and delegation issued by the entity or entities in charge of record-keeping or the deposit entity to the Company, duly signed and completed by the shareholder, or using any other written method which has been approved by the Board of Directors in advance and which, in the Board's opinion, makes it possible to identify the shareholder granting the proxy along with the proxy's identity.

b. they are issued using remote electronic modes of communication, enclosing an electronic copy of the attendance card and delegation which duly guarantees the proxy being granted and the identity of the issuing shareholder. Proxies issued in this way shall be permitted when the electronic document granting the proxy contains the legally-recognised electronic signature of the principal or another other form of identification previously authorised by the Board and deemed to adequately guarantee the authenticity and identity of the shareholder granting the proxy.

In order to be valid, the proxy granted using either one of the two remote communication alternatives cited in parts a) and b) above must be received by the Company before midnight on the third day before the date of the General Meeting on first call. The Board of Directors may set a shorter deadline depending on the terms of the Articles of Association.

The minimum details to be included in the documents containing the proxies for the General Meeting are as follows:

(i) The date of the General Meeting and the agenda.

(ii) The names of the principal and the proxy. If no name is specified, it shall be understood that the proxy is granted to the Chairman of the Board of Directors or his substitute.

(iii) The number shares owned by the shareholders granting the proxy and

(iv) Instructions on how the proxy should vote on behalf of the principal on each one of the Agenda items.

The Chairman and the Secretary or the persons designated by them shall be understood as authorised to determine the validity of the proxies and whether or not the requirements for attending the General Meeting have been met.

The powers of representation regulated herein are established without prejudice to the legal requirements governing cases of family representation and general powers of attorney.

Article 22. Right to information during the General Meeting

During the debate, shareholders may verbally request any information or clarifications they require on the agenda items. To do so, they must have identified themselves in advance as provided for in article 20 above.

The Directors are obligated to provide the requested information in the manner and by the deadlines stipulated in the applicable laws, except in those cases where:

a. The disclosure of the information could, in the Chairman's opinion, harm the Company's interests;

b. The request for information does not refer to any agenda item;

c. The requested information is not needed to form an opinion on the matters being debated by the General Meeting or the request can be considered abusive;

d. The disclosure is prohibited by legal or regulatory provisions or by court order.

However, the exception stated in letter (a) above shall not apply when the request is backed by shareholders representing at least one-fourth of the share capital.

The requested information must be provided by the Chairman or, at the Chairman's request, by the CEO, the chairman of a Board Committee, the Secretary, another Director or any employee or expert on the subject. The Chairman will determine in each case, based on the information being requested, whether it is most effective for the General Meeting to provide the responses on and individualised basis or grouped together by topic.

If it not possible to respond to the shareholder on the spot at the General Meeting, the information will be provided to the requesting shareholder in writing within seven days of the General Meeting.

Article 24. Distance voting.

Shareholders with the right to attend the General Meeting may cast their votes on the proposals relative to the agenda items using the following remote communication methods:

a. they are hand delivered or sent by post, forwarding the attendance card and delegation issued by the entity or entities in charge of record-keeping or the deposit entity to the Company, duly signed and completed by the shareholder (along with the ballot provided by the Company, if any), or using any other written method which has been approved by the Board of Directors in advance and which, in the Board's opinion, makes it possible to identify the shareholder casting the vote; or

b. using other remote electronic modes of communication, enclosing an electronic copy of the attendance card and vote (along with the ballot provided by the Company, if any) as long as the electronic voting document contains the legally-recognised electronic signature of the shareholder or another other form of identification previously authorised by the Board and deemed to adequately guarantee the authenticity and identity of the voting shareholder.

The votes cast using the systems referred to above shall only be valid when they are received by the Company before midnight on the third day before the date of the General Meeting on first call. The Board of Directors may set a shorter deadline depending on the terms of the Articles of Association.

Shareholders casting their votes from a distance as described in this article shall be considered present at the meeting for quorum purposes. Consequently, the delegations issued previously shall be considered revoked and those granted subsequently shall be considered null and void.

The votes cast from a distance as described in this article may only be cancelled:

i. by expressly revoking the vote using the same channel used to cast the vote by the established deadline.

ii. When the issuing shareholder attends the meeting in person.

iii. When the shares in respect of which the voting rights are granted are sold and the Company is informed of the sale at least five days prior to the date of the General Meeting;

The Board of Directors is authorised to establish the rules, measures and procedures, in keeping with the state of the technology, needed to enable shareholders to cast their votes and grant proxies electronically, always in compliance with the laws governing these systems and the terms of the articles of association and these Rules. These measures and procedure will be published on the Company's website. The Board of Directors will take the measures needed to ensure that shareholders to cast their votes electronically or grant proxies by post or electronically are duly authorised to do so according to the terms of the articles of association and these Rules.

Distance voters will be included on the attendance list by added the digital medium where they are registered with the digital medium containing the rest of the list. If the list is composed of a file containing the attendance cards, a document will be generated on paper with the attendance card information for each one of the shareholders who voted electronically or telematically, notwithstanding the fact that the vote may be also be conserved in an electronic file.

Article 25. Voting on proposed resolutions

Once the debates have concluded and the information requested by shareholders has been provided as described herein, the shareholders will vote on the proposed resolutions on the agenda items and any other matters which are not legally required to be included on the agenda. The Chairman is responsible for deciding the order in which the shareholders vote on these other matters.

Votes may be split so that the financial brokers who appear as legitimate shareholders acting on behalf of different clients can cast their votes following their clients' instructions. It is not necessary for the Secretary to read the proposed resolutions in advance if the text of the proposed resolutions is distributed to shareholders at the beginning of the Meeting, except when one or more shareholders request that one or more of the proposals be read aloud or when this is deemed necessary by the Chairman. The attendees will be informed of the agenda item to which the proposed resolution refers.

Each agenda item will be voted on separately.

However, depending on the circumstances the Chairman may decide that the proposals relative to more than one agenda item be voted on jointly, in which case the results of the vote will be understood to apply individually to each proposal if none of the attendees expresses a desire to modify his/her vote on any one of them.

Otherwise, the voting modifications expressed by each one of the attendees will be noted in the minutes along with the results of the votes on each one of the proposals as a consequence.

The process of passing resolutions must follow the order of the agenda contained in the meeting announcement. The shareholders will vote first on the proposals made by the Board of Directors. Once a proposed resolutions has been approved, any other proposals on the same topic that are incompatible with the approved resolutions will be automatically eliminated and will not be put to the shareholders for a vote.

Generally speaking, the procedure for calculating the results of the voting on proposed resolutions will be as follows, notwithstanding the President's discretion, based on the circumstances, nature or contents of the proposal, to employ an alternative procedure:

a. The votes cast by all of the shares present or represented at the meeting will be considered votes in favour of the resolution, less (i) the votes corresponding to the shares whose owners or representatives express to the notary (or the Secretary) that they wish to vote against the proposal or to abstain for inclusion in the minutes; (ii) the votes corresponding to shares whose owners have voted against the proposal or abstained or who have specifically expressed their abstention using the channels of communication referred to in this article and (iii) the votes corresponding to the shares whose owners or representatives have left the meeting prior to the voting on the proposed agreement and have informed the notary (or the Secretary) that they were leaving;

b. the notifications or statements made to the notary public (or the Secretary or the personnel assisting the Secretary) as described in the preceding paragraph regarding whether the shareholder wishes to vote for or against a resolution or abstain may be made individually for each one of the proposals or jointly for some or all of the proposals, indicating to the notary public (or the Secretary or the personnel assisting the Secretary) the identity and status – shareholder or representative – of the person making the statement, the number of shares involved and whether the shareholder is voting for, against or abstaining;

c. for the passage or resolutions on matters not included on the agenda, the shareholders who vote on the proposals remotely shall not be considered present or represented at the General Meeting.

E.4. Briefly describe the resolutions passed by the general meeting or equivalent governing body during the year to which this report refers and the percentage of votes with which the resolutions were passed.

The resolutions passed by the Ordinary General Meeting held on 30th June 2011 were as follows:

One.- Examination and approval of the Annual Accounts (Balance Sheet and Income Statement, Statement of Change in Equity, Cash Flow Statement and Notes to the Financial Statement) and Directors' Report of ZINKIA ENTERTAINMENT, S.A. for the 2010 fiscal year.

Passed with 100% of votes.

Two. Examination and approval of the proposed distribution of profits (losses).

Passed with 100% of votes.

Three. Examination and approval of the Board of Directors' performance.

Passed with 100% of the votes.

Four. Amendment of articles 1, 2, 9, 10, 11, 13, 14, 16, 18 and 20 of the Company's Articles of Association, and inclusion of a new article 21.

Passed with 95,27% of the votes.

Five. Modification of the preamble and articles 4, 5, 6, 7, 12, 13, 26 and 27 of the Rules of the General Meeting of Shareholders.

Passed with 95,27% of the votes.

Six. Authorisation to the Board of Directors for derivative acquisition of shares, subject to the terms set out in article 146 and concordant of the Capital Companies Act.

Passed with 95,27% of the votes.

Seven. Plan of conditional delivery of shares to the Board of Directors and Company Executives.

Passed with 95,27% of the votes.

Eight. Reelection of External Auditors.

Passed with the 100% of the votes.

Nine. Delegation of powers for developing, notarising and registering the foregoing resolutions and for filing the Annual Accounts with the Business Register.

Passed with 100% of the votes.

E.5. Give the address of the corporate website and the way in which the corporate governance contents can be accessed.

On the Company's website – www.zinkia.com - users can go to the section on information for shareholders and investors and click on Corporate Governance on the menu on the left side of the page to find information on corporate governance. The complete address to get to this point is: http://www.zinkia.com/informacioncorporativa/

E.6. State whether meetings have been held with the different syndicates of bondholders, if any, the purpose of the meeting held during the fiscal year in question and the most important resolutions passed.

There were no meetings in 2011 with the syndicates of bondholders of securities that trade of regulated markets.

F - DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

State the degree to which the Company has complied with the recommendations for good corporate governance and those recommendations which the Company has not assumed.

Should the company fail to comply with any of them, explain the recommendations, rules, practices or criteria the company applies.

Until such time as the single document referred to in ECO ORDER 3722/2003 of 26 December has been drafted, the recommendations contained in the Olivencia Report and the Aldama Report should be used as the references for completing this section, to the extent that these recommendations apply to your Company.

Since the Company is not a publicly listed entity whose stock trade on a regulated market, as this is defined in the Spanish Stock Market Act, the Company is not bound by the recommendations of the Unified Code of Good Governance (hereinafter, the "Unified Code") since its stocks are trades on the Mercado Alternativo Bursátil in the segment of enterprises in expansion (MAB-EE) since 15 July 2009, which is not a regulated market according to the applicable laws but rather a multilateral trading system.

However, ZINKIA ENTERTAINMENT, S.A. has assumed several of the recommendations contained in the Unified Code and intended for publicly listed companies.

In this regard, as of the date of this report, ZINKIA ENTERTAINMENT, S.A. complies with the following recommendations of the Unified Code.

- The size of the Board of Directors should allow all members to participate in the debates: During 2011, there were seven Directors, and as of the date of this report, there are six directors, which is within the range recommended by the Unified Code (between 5 and 15 members) and which allows for effective and participative operation. The Articles of Association of ZINKIA ENTERTAINMENT, S.A. establishes a maximum of 10 members, which is also within the range recommended by the Unified Code.

- Composition of the Board of Directors: As of the date of this report, independent and proprietary external directors constitute an ample majority of board members, with five, compared to the solely executive director member, which complies with recommendation 10 of the Unified Code.

- Inclusion of independent directors, these being understood as directors who do not perform executive functions, who do not represent any significant shareholders and who do not have relations with either of the foregoing groups. As of the date of this report, ZINKIA ENTERTAINMENT, S.A. had one independent director on the Board of Directors.

- Creation of committees: ZINKIA ENTERTAINMENT, S.A. has an Audit Committee composed of a majority of non-executive directors, one of whom is an independent director. In compliance with recommendation 44 of the Unified Code, the independent director is the Chairman of the Audit Committee. Furthermore, the Rules of the Board of Directors provide for the possibility of establishing an Appointments and Remuneration Committee, again with a majority of external directors. As of the date of this report, no agreement had been reached on creating such a committee.

Finally, ZINKIA ENTERTAINMENT, S.A. has approved a set of Rules for the Meeting of Shareholders and the Board of Directors containing specific measures intended to guarantee the most effective administration of the Company, along with an Internal Code of Conduct for operating with the Stock Market.

The Rules of the General Meeting of Shareholders and Board of Directors and the Internal Code of Conduct can be consulted on the Company's website at www.zinkia.com/informacioncorporativa.

G. OTHER INFORMATION OF INTEREST

If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report, state and explain below.

You may include in this section any other information, clarification or observation related to the above sections of this report, to the extent that it is relevant and non-repetitive.

Specifically state whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

To supplement the information provided in point B.1.2. on June 30th 2011, the Board of Directors agreed to accept the resignation of Mr. Fernando de Miguel Hernández as a member of the Board of Directors, and in consequence as CEO and Vicepresident of the Board, leaving a vacancy on the Board of Directors.

On February 29th 2012, the Board of Directors of ZINKIA ENTERTAINMENT, S.A. agreed to accept the resignation of Mr. Mariano Martín Mampaso as a director for reasons of incompatibility, and the Board, as set out in the article 244 of the Capital Companies Act, designated by cooptation, conditioned to the next General Meeting, as member of the Board of Directors the company Axon Capital e Inversiones SGECR S.A. As of the date of this report the acceptance of such designation has not been received.

The Board of Directors greed on October the 7th 2011 to appoint the Chairman of the Board, Mr. Jose María Castillejo Orial as CEO of the Company, and to appoint Mrs. Lorea Garcia Jauregui as the Secretary of the Board in place of Mrs. Inés Rovira García.

All of these changes were duly and on time notified to the CNMV and the MAB in the form of relevant events.

In addition, we would like to clarify the information provided in point B.1.6 of this report which states that there is no limit on the amount of time Board members may remain on the Board. As established in article 17 of the Articles of Association, and article 20 of the Rules of the Board of Directors, the Directors shall hold their position for a term of five years, and may be re-elected once or more times for terms of equal length. The article 21.1 of the Rules of the Board of Directors, since the Company's shares began to trade on the Mercado Alternative Bursátil, established that independent directors must step down from their posts after 12 years of uninterrupted service.

We would like also to clarify that the Board of Directors will propose the next General Meeting the actualization of the Articles of Association, the Rules of the Board of Directors and the Rules of the General Meeting accordingly to the last legislative modifications, and in particular, to the last changes operated by Law 25/2011, August 1st.

Regarding information provided in point B.1.5, we would like to clarify that in order to give more transparency, the data of all the Company Executives that reported to the CEO during any time of 2011 have been included, even if after the resignation of the CEO and the appointment of the Chairman, Mr. José María Castillejo Oriol, as CEO, the persons that actually report to the first management level of the company have clearly decreased.

This Annual Corporate Governance Report was approved by the Board of Directors or governing body at the session held on 22 March 2012.

List any directors who voted against or abstained from voting on the approval of this report.