GARRIDO
AUDITORES

ZINKIA ENTERTAINMENT, S.A.

Auditor’s Report, Annual Accounts
And Directors’ Report at 31 December 2010

GARRIDO
AUDITORES

C/Almagro, 26 Esc. Izq. 1ºA
28010-Madrid
España
Tel: 34 91 319 60 62
Fax: 34 91 310 24 88

AUDITOR'S REPORT ON THE ANNUAL ACCOUNTS
To the shareholders of ZINKIA ENTERTAINMENT, S.A.

We have audited the annual accounts of ZINKIA ENTERTAINMENT, S.A. comprising the balance sheet as at 31 December 2010, the income statement, the statement of change in equity, the cash flow statement and the notes to the annual accounts for the fiscal year ending on said date. The Directors are responsible for formulating the annual accounts according to the regulatory framework on financial reporting applicable to the company (as identified in note 2 of the enclosed Report), particularly the accounting principles and standards contained therein. It is our responsibility to state an opinion on the aforementioned annual accounts based on the work carried out in accordance with the rules governing account auditing in Spain which require the examination, by means of selective testing, of evidence supporting the annual accounts and an assessment of whether the presentation, accounting principles and standards used and the estimates made are in keeping with the applicable regulatory framework for financial reporting.

In our opinion, the enclosed annual accounts for fiscal year 2010 reflect, in all significant respects, a true and fair view of net assets and financial position of ZINKIA ENTERTAINMENT, S.A. at 31 December 2010 and of the results of their operations, in addition to resources obtained and applied during the fiscal year closed on the aforementioned date, in accordance with the applicable regulatory framework on financial reporting and particularly the accounting principles and standards contained therein.

Although it does not affect our opinion as auditors, we would call the reader's attention to Note 29 of the enclosed report, which mentions that the Company's revenues did not reach the expectations and forecasts contained in the Document of Inclusion in the Alternative Equity Market.

The enclosed Directors' Report for the 2010 fiscal year contains the explanations that the Directors have deemed appropriate on the Company's situation, the course of its business and other matters, and is not an integral part of the annual accounts. We have checked that the accounting information contained in that Directors' Report agrees with that of the 2010 annual accounts. Our work as auditors is limited to checking the Directors' Report within the scope stated in this paragraph and does not include a review of information other than that obtained from the Company's accounting records.

Garrido Auditores, S.L.
(Registered in the Official Register of Certified Public Accounts under number S1838)

Julio César Calvo
Partner-Auditor
30 March 2011

# ZINKIA ENTERTAINMENT, S.A.

2010 ANNUAL ACCOUNTS AND DIRECTORS' REPORT

## TABLE OF CONTENTS OF THE ANNUAL ACCOUNTS OF ZINKIA ENTERTAINMENT, S.A.

**ZINKIA ENTERTAINMENT, S.A.**
**BALANCE SHEET AT 31 DECEMBER 2010 (Expressed in euros)**

| ASSETS | Note | 2010 | 2009 |
|---|---|---|---|
| **A) NON-CURRENT ASSETS** | | **12,895,833** | **12,048,414** |
| **I. Intangible fixed assets** | 5 | **8,664,851** | **8,748,626** |
| *3. Patents, licences, trademarks and similar* | | *3,663,614* | *4.636.021* |
| *5. Computer applications* | | *113,441* | *101.700* |
| *6. Other intangible assets* | | | *4.010.905* |
| *Research* | | 4,887,795 | 3.993.881 |
| *Advances for intangible assets* | | - | *17.025* |
| **II. Property, plant and equipment** | 6 | **107,695** | **83,724** |
| *2. Plant and other PPE* | | *107,695* | *83.724* |
| **IV. Non-current investments in group companies and associates** | 7 and 8 | **9,474** | **3,006** |
| *1. Equity instruments* | | *9,474* | *3.006* |
| **V. Non-current financial investments** | 7 and 11 | **84,770** | **32,270** |
| *1. Equity instruments* | | *32,270* | *32.270* |
| *5. Other financial assets* | | *52,500* | - |
| **VI. Deferred tax assets** | 7, 11 and 20 | **3,929,006** | **3,167,605** |
| **VII. Non-current trade receivables** | 7 and 11 | **100,037** | **13,182** |
| 1. From clients | | *100,037* | *13.182* |
| **B) CURRENT ASSETS** | | **4,681,508** | **5,972,202** |
| **III. Trade and other accounts receivable** | 7 and 11 | **3,701,613** | **3,377,503** |
| *1. From clients* | | *3,483,576* | *3,157,258* |
| *2. Clients, group companies and associates* | | *25,105* | - |
| *3. Sundry receivables* | | - | *107,516* |
| *4. Personnel* | | *(519)* | *300* |
| *5. Current tax assets* | | *14,092* | *12,763* |
| *6. Other tax credits* | | *179,359* | *99,666* |
| **IV. Current investments in group companies and associates** | 7 and 11 | **381,228** | **677,540** |
| *2. Loans to companies* | | *380,876* | *677,512* |
| *5. Other financial assets* | | *352* | *28* |
| **V. Current financial investments** | 7 and 11 | **179,601** | **1,539,329** |
| *1. Equity instruments* | | *198* | *289* |
| *5. Other financial assets* | | *179,403* | *1,539,040* |
| **VI. Current accruals and deferred income** | | **44,567** | **9,094** |
| **VII. Cash and cash equivalents** | 14 | **374,499** | **368,736** |
| **TOTAL ASSETS** | | **17,577,341** | **18,020,616** |

## ZINKIA ENTERTAINMENT, S.A.
## BALANCE SHEET AT 31 DECEMBER 2010 (Expressed in euros)

| EQUITY AND LIABILITIES | Note | 2010 | | 2009 |
|---|---|---|---|---|
| **A) NET EQUITY** | | **9,501,287** | | **11,843,891** |
| **A-1) SHAREHOLDERS' EQUITY** | | **9,455,324** | | **11,794,780** |
| **I. Capital** | **15** | **2,445,677** | | **2,445,677** |
| *1. Registered capital* | | *2,445,677* | | *2.445.677* |
| **II. Share premium account** | **15** | **9,570,913** | | **9,570,913** |
| **III. Reserves** | **16** | **1,175,649** | **1,189,150** | |
| *1. Legal and statutory* | | *237,262* | | *237.262* |
| *2. Other reserves* | | *938,387* | | *951.888* |
| **IV. Treasury stock** | **17** | **(347,303)** | | **(319,736)** |
| **V. Tax loss carryforwards** | | **(1,091,225)** | | **-** |
| 2. Tax loss carryforwards | | (1,091,225) | | - |
| **VII. Profit/(loss) for the year** | **18** | **(2,298,387)** | | **(1,091,224)** |
| **A-2) ADJUSTMENTS DUE TO VALUE CHANGES** | **12** | **(33.784)** | | **(63,389)** |
| **II. Hedging transactions** | | **(33,784)** | | **(63,389)** |
| **A-3) GRANTS, DONATIONS AND BEQUESTS RECEIVED** | **19** | **79.748** | | **112,500** |
| **B) NON-CURRENT LIABILITIES** | **7 and 13** | **3.711.969** | | **2,751,842** |
| **II. Non-current payables** | **7 and 13** | **3,672,294** | | **2,714,342** |
| *1. Debentures and other marketable securities* | | *1,594,540* | | *-* |
| *2. Bank borrowings* | | *1,697,501* | | *2,150,953* |
| *4. Derivatives* | | *33,784* | | *63,389* |
| *5. Other financial liabilities* | | *346,469* | *500,000* | |
| **IV. Deferred tax liabilities** | **7, 13 and 20** | **39.675** | | **37,500** |
| **C) CURRENT LIABILITIES** | | **4.364.085** | | **3.424.884** |
| **III. Current payables** | **7 and 13** | **2,709,523** | | **2,921,652** |
| *1. Debentures and other marketable securities* | | *30,489* | | *-* |
| *2. Bank borrowings* | | *2,076,818* | | *2,463,844* |
| *5. Other financial liabilities* | | *602,217* | | *457,808* |
| **V. Trade and other payables** | **7 and 13** | **1,654,561** | | **503,232** |
| *3, Sundry payables* | | *1,311,596* | | *328,291* |
| *6, Other taxes payables* | | *329,965* | | *174,941* |
| *7, Advance payments from customers* | | *13,000* | *-* | |
| **TOTAL LIABILITIES AND EQUITY** | | **17,577,341** | | **18,020,616** |

## ZINKIA ENTERTAINMENT, S.A.

## INCOME STATEMENT FOR THE FISCAL YEAR ENDED 31 DECEMBER 2010 (in euros)

| | Note | 2010 | 2009 |
|---|---|---|---|
| 1. Revenue | 21.b. | 3,945,306 | 3,740,332 |
| 3. Own work capitalised | 5 | 1,990,939 | 1,729,077 |
| 4. Raw materials and consumables | 21.c | (248,955) | (146,629) |
| 5. Other operating revenues | | 2,739 | 34,993 |
| 6. Staff expenses | 21.e | (3,334,395) | (2,920,146) |
| 7. Other operating expenses | 21 d | (2,954,860) | (2,367,579) |
| 8. Fixed asset depreciation | 5 and 6 | (1,724,994) | (1,353,816) |
| 11. Impairment and profit/(loss) on fixed asset disposals | | | |
| a) Impairment and losses | | (418,032) | - |
| b) Profit/loss on disposals and other | | 531 | 622 |
| 12. Other results | | (14,214) | (126,164) |
| **A) OPERATING PROFIT (LOSS)** | | **(2,755,935)** | **(1,409,309)** |
| 13. Financial income | | 20,219 | 46,634 |
| 14. Financial expense | | (273,280) | (415,471) |
| 15. Change in fair value of financial instruments | | (88) | 120 |
| 16. Exchange differences | | (6,324) | (17,156) |
| 17. Impairment and losses on disposal of financial instruments | | (31,288) | - |
| **B) FINANCIAL PROFIT (LOSS)** | | **(290,761)** | **(385,873)** |
| **C) PROFIT/(LOSS) BEFORE INCOME TAX** | | **(3,046,695)** | **(1,795,182)** |
| 17. Corporate income tax | 22 | 748,308 | 703,958 |
| **D) PROFIT/(LOSS) FOR THE YEAR** | | **(2,298,387)** | **(1,091,224)** |

ZINKIA ENTERTAINMENT, S.A.

## STATEMENT OF CHANGE IN EQUITY FOR THE FISCAL YEAR ENDED 31 DECEMBER 2010

### A) STATEMENT OF RECOGNISED INCOME AND EXPENSE (expressed in Euros)

| | 2010 | 2009 |
|---|---|---|
| **A) Profit/ loss for the year** | **(2,298,387)** | **(1,091,224)** |
| **Income and expense recognised directly in equity** | | |
| II. Cash-flow hedges | (8,734) | (31,887) |
| III. Grants, donations and bequests received | (43,669) | - |
| V. Tax effect | 10,917 | - |
| **B) Total income and expense recognised directly in equity** | **(41,486)** | **(31,887)** |
| **Transfers to the profit and loss account** | | |
| VII. Cash-flow hedges | 38,338 | 27,008 |
| **C) Total transfers to the profit and loss account** | **38,338** | **27,008** |
| **TOTAL RECOGNISED INCOME AND EXPENSE (A+B+C)** | **(2,301,535)** | **(1,096,103)** |

## B) TOTAL STATEMENT OF CHANGES IN EQUITY (expressed in euros)

| | Registered capital | Share premium account | Reserves | Treasury stock | Prior-year results | Profit/loss for the year | Value adjustments | Grants and donations | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| **A. 2008 ENDING BALANCE** | **2,078,950** | **2,896,485** | **267,376** | **-** | **-** | **1,623,773** | **(58,509)** | **112,500** | **6,920,575** |
| I. Adjustments due to criteria changes 2008 | | | | | | | | | |
| II. Adjustments due to errors 2008 | | | 10,173* | | | | | | 10,173 |
| **B) 2009 ADJUSTED STARTING BALANCE** | **2,078,950** | **2,896,485** | **277,549** | **-** | **-** | **1,623,773** | **(58,509)** | **112,500** | **6,930,748** |
| **I. Total recognised income and expenses** | | | | | | (1,091,224) | (4,879) | | (1,096,103) |
| **II. Transactions with shareholders** | | | | | | | | | |
| 1. Capital increases | 366,727 | 6,674,428 | (731,179) | | | | | | 6,309,976 |
| 5. Trading in treasury shares | | | 19,007 | (319,736) | | | | | (300,729) |
| **III. Other movements in equity** | | | 1,623,773 | | | (1,623,773) | | | |
| **C. 2009 ENDING BALANCE** | **2,445,677** | **9,570,913** | **1,189,150** | **(319,736)** | **-** | **(1,091,224)** | **(63,389)** | **112,500** | **11,843,891** |
| I. Adjustments due to criteria changes 2009 | | | | | | | | | |
| II. Adjustments due to errors 2009 | | | | | | | | | |
| **D. 2010 ADJUSTED STARTING BALANCE** | **2,445,677** | **9,570,913** | **1,189,150** | **(319,736)** | | **(1,091,224)** | **(63,389)** | **112,500** | **11,843,891** |
| **I. Total recognised income and expenses** | | | | | | (2,298,387) | 29,604 | **(32,752)** | (2,301,535) |
| **II. Transactions with shareholders** | | | | | | | | | |
| 1. Capital increases | | | | | | | | | |
| 5. Trading in treasury shares | | | (13,501) | (27,567) | | | | | (41,068) |
| **III. Other movements in equity** | | | | | (1,091,224) | 1,091,224 | | | |
| **E. 2010 ENDING BALANCE** | **2,445,677** | **9,570,913** | **1,175,649** | **(347,303)** | **(1,091,224)** | **(2,298,387)** | **(33,785)** | **79,748** | **9,501,287** |

*Correction of the tax credit recognised in 2008.**ZINKIA ENTERTAINMENT, S.A.**

## CASH FLOW STATEMENT FOR THE FISCAL YEARS ENDED 31 DECEMBER 2010 (in euros)

| | NOTES | 2010 | 2009 |
|---|---|---|---|
| **A) CASH FLOWS FROM OPERATIONS** | | | |
| **1. Profit (loss) before taxes** | | **(3,046,695)** | **(1,795,182)** |
| **2. Adjustments to profit (loss)** | | **2,447,469** | **1,865,232** |
| a) Fixed asset depreciation | 5 and 6 | 1,724,994 | 1,353,816 |
| b) Value corrections | 5 and 8 | 449,320 | - |
| e) Results by write-offs and disposals of fixed assets | | (531) | (622) |
| g) Financial income | | (20,219) | (46,634) |
| h) Financial expense | | 273,280 | 415,471 |
| i) Exchange differences | | 6,324 | 17,156 |
| j) Change in fair value of financial instruments | | 88 | (120) |
| k) Other income and expenses | | 14,214 | 126,165 |
| **3. Change in working capital** | | **707,066** | **(565,831)** |
| b) Debtors and other receivables | 7 and 11 | (324,110) | (407,539) |
| c) Other current assets | | (35,473) | 6,706 |
| d) Creditors and other payables | 7 and 13 | 1,151,329 | (209,299) |
| f) Other non-current assets and liabilities | 7,11,13,18 | (84,680) | 44,302 |
| **4. Other cash flows from operations** | | **(292,963)** | **(527,440)** |
| a) Interest paid | | (278,758) | (401,288) |
| c) Dividends received | | 9 | 13 |
| e) Other payments (collections) | | (14,214) | (126,165) |
| **5.- Cash flows from operations (1+2+3+4)** | | **(185,123)** | **(1,023,222)** |
| **B) CASH FLOWS FROM INVESTMENTS** | | | |
| **6. Paid on investments (-)** | | **(2,238,206)** | **(4,472,687)** |
| a) Group companies and associates | 7, 8 and 11 | (83,108) | (6) |
| b) Intangible assets | 5 | (2,027,266) | (1,793,772) |
| c) Property, plant and equipment | 6 | (55,956) | (12,957) |
| e) Other financial assets | 7 and 11 | (161,875) | (2,665,952) |
| **7. Amounts collected from divestments (+)** | | **1,817,176** | **1,812,512** |
| a) Group companies and associates | 7, 8 and 11 | 350,000 | 600,000 |
| e) Other financial assets | 7 and 11 | 1,467,176 | 1,212,512 |
| **8. Cash flows from investments (7-6)** | | **(511,029)** | **(2,660,175)** |
| **C) CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| **9. Collections and payments on equity instruments** | | **(41,068)** | **6,009,245** |
| a) Issue of equity instruments | 15 | - | 6,309,975 |
| **c) Acquisition of equity instruments** | **17** | **(223,177)** | **(463,631)** |
| **d) Disposal of equity instruments** | **17** | **182,109** | **162,901** |
| **10. Collections and payments on financial liability instruments** | | **749,308** | **(1,947,979)** |
| a) Issues | | 2,954,086 | 1,893,860 |
| 1. Debentures and other marketable securities | | 1,570,906 | - |
| 2. Bank borrowings | 7 and 13 | 1,112,332 | 1,665,753 |
| 4. Other payables | 7 and 13 | 270,848 | 228,107 |
| b) Return and amortisation of | | (2,204,779) | (3,841,838) |
| 2. Bank borrowings | 7 and 13 | (1,926,645) | (3,460,399) |
| 4. Other payables | 7 and 13 | (278,133) | (381,440) |
| **11. Dividend payments and returns on other equity instruments** | | **-** | **-** |
| **12. Cash flows from financing (9+10+11)** | | **708,240** | **4,061,267** |
| **D) Effect of exchange rate fluctuations** | | **(6,324)** | **(17,156)** |
| **E) NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)** | | **5,763** | **360,715** |

**ZINKIA ENTERTAINMENT, S.A.**

**NOTES TO THE 2010 ANNUAL ACCOUNTS**
**(Expressed in euro)**

## 1. General information

The Company was founded as a limited liability company under the name of Junk & Beliavsky, S.L. on 27 April 2000. On 27 December 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 11 June 2002, the name of the company was once again changed to ZINKIA ENTERTAINMENT, S.L.

On 20 July 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 24 October 2007.

The business objectives of the Company, which is 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 and audiovisual works.

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

c) Producing, promoting, creating, managing and marketing interactive games and computer applications for entertainment purposes at both the domestic and international levels.

d) Developing all types of multimedia and computer processes and media.

e) 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.

f) 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.

g) 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, b, c and d.

## 2. Basis of presentation

a) <u>True Image</u>

The 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) <u>Accounting principles</u>

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

c) <u>Critical measurement issues and estimates of uncertainty</u>

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.

*<u>- Fair value of derivatives or other financial instruments</u>*

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.

*<u>- Useful lives of the factory and Technology Division equipment</u>*

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) <u>Comparability of information</u>

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

e) <u>Grouping of items</u>

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

This year, the Company chose to consider the expenses associated with certain independent contractors, collaborators with management functions and the like, with whom the Company maintains mercantile rather than employment relationships, as the cost of external services whereas the year before these were recorded as salaries. These expenses are therefore restated on the Income Statement and in notes 21.e) and 21.f). The expenses incurred under this heading totalled 663,757 euros in 2009 and 530,352 euros in 2010.

g) Correction of errors

There were no corrections due to errors from prior years.

## 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 are ready for use are included in the cost of the assets until they are ready for use.

### 3.4 Losses due to impairment of non-financial assets

Assists 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 states 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 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 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 worth 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 accounting hedge**

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

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

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

The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

c) Hedges of a net investment in foreign operations: For hedges of net investments in joint ventures without a separate legal personality and foreign branches, changes in the value of the derivatives attributable to the hedged risk are recognised temporarily in equity and taken to the income statement in the year when the investment in the foreign operation is disposed of.

Hedges of net investments in foreign operations in subsidiaries, jointly-controlled entities and associates are treated as fair value hedges with respect to the exchange component.

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

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

**3.7 Equity**

Share capital consists of ordinary shares.

The cost of issuing new shares or options is charged directly against equity, as a reduction in reserves.

In the event that the Company's acquires treasury shares, the price paid, including any directly attributable incremental cost, is deducted from equity until the treasury shares are redeemed, reissued or sold. When treasury shares are subsequently sold or reissued, any amount received is taken to equity net of directly attributable incremental costs.

**3.8 Financial liabilities**

a) 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 Employee benefits**

a) <u>Termination benefits</u>

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises these benefits when it has demonstrably undertaken to terminate current employees' employment in accordance with a formal detailed plan that cannot be withdrawn, or to provide severance indemnities as a result of an offer made to encourage voluntary redundancy.

Benefits which are not going to be paid within twelve months of the balance sheet date are discounted at present value.

The Company has no other obligations to its personnel.

### 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. Such contingent liabilities are not reflected for accounting purposes and a breakdown is presented in the notes to the financial statements (Note 22).

### 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) When the Company is lessee – Finance leases

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

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

b) When the Company is the 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 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 Related-party transactions**

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.

For mergers, splits and non-monetary contributions of a business, the Company applies the following:

a) For transactions between group companies involving the parent of the group or of a subgroup and its subsidiary, directly or indirectly, the assets representing the business acquired are carried at the amount at which, following the transactions, is attributable to them in the group's or subgroup's consolidated annual accounts.

b) For intercompany transactions, the assets of the business are stated at their carrying value in the individual financial statements prior to the transaction.

The difference that may arise is reflected in reserves.

## 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 notionals contracted.

**b) <u>Credit risk</u>**

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) <u>Liquidity risk</u>**

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 <u>Fair value estimation</u>

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 31.12.09** | **Additions** | **Disposals** | **Transfers** | **Balance at 31.12.10** |
| **Cost** | | | | | |
| Research and development expenses | 4,240,504 | 1,990,939 | - | (1,096,661) | 5,134,782 |
| Industrial and intellectual property | 8,994,216 | - | - | 1,096,661 | 10,090,877 |
| Computer software | 456,063 | 30,400 | - | 22,953 | 509,416 |
| Advances for intangible assets | 17,025 | 5,928 | | (22,953) | - |
| | **13,707,808** | **2,027,267** | **-** | **-** | **15,735,075** |
| **Depreciation/ amortisation** | | | | | |
| Research and development expenses | (246,623) | (362) | - | - | (246,985) |
| Industrial and intellectual property | (4,358,195) | (1,651,036) | - | - | (6,009,231) |
| Computer software | (354,364) | (41,612) | - | - | (395,975) |
| | **(4,959,181)** | **(1,693,010)** | | | **(6,652,191)** |
| **Value adjustments for impairment** | | | | | |
| Industrial property rights | - | (418,032) | - | - | (418,032) |
| | **-** | **(418,032)** | **-** | **-** | **(418,032)** |
| **Net carrying amount** | **8,748,626** | | | | **8,664,851** |

1,096,661 euros of research and development expenses were reclassified in 2010 as intellectual property expenses since production had been completed and they met the requirements for being reclassified.

The additions in 2010 referred primarily to work done by the company on its own assets.

In 2010, the Company recognised a 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 loss is based on the revenues forecasts associated with the project in the coming years. The loss will be reversed when the estimates change in a favourable direction.

Research and development expenses

Development costs capitalised relate to the following projects:

| | | | | **2010** |
|---|---|---|---|---|
| **Project** | **Cost** | **Accumulated depreciation** | **Impairmen t losses** | **Carrying value** |
| **Developed by the company:** | | | | |
| Work in progress | 4,887,795 | - | - | 4,887,795 |
| Completed projects | 246,985 | (246,985) | - - | |
| | 5,134,781 | (246,985) | - | 4,887,795 |

Research and development expenditure recognised in the income statement during the year totals €1,990,939.

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 2010.

Property, plant and equipment located abroad

At 31 December 2010, the Company had no intangible asset investments located outside of Spain.

Fully-amortised intangible assets

At 31.12.10, there were intangible fixed assets with an accounting cost of 525,400 euros still in use and fully amortised.

Assets subject to guarantees and ownership restrictions

At 31 December 2010, 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 did not receive any operating grants for the development of intangible assets in 2010.

## 6. Property, plant and equipment

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

| | | | | | Euro |
|---|---|---|---|---|---|
| | **Balance at 31.12.09** | **Additions** | **Disposals** | **Transfers** | **Balance at 31.12.10** |
| **Cost** | | | | | |
| Machinery | 31,689 | - | - | - | 31,689 |
| Other equipment | 26,584 | 7,934 | - | - | 34,517 |
| Furnishings | 56,760 | 8,639 | - | - | 65,399 |
| Data-processing equipment | 105,421 | 33,695 | - | - | 139,115 |
| Other PPE | 20,983 | 5,689 | - | - | 26,672 |
| Work in progress and advance payments | - | | | | |
| | **241,437** | **55,956** | **-** | **-** | **297,392** |
| **Depreciation/ 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) |
| | **(157,713)** | **(31,984)** | **-** | **-** | **(189,697)** |
| **Value adjustments for impairment** | - | - | - | - | - |
| | **-** | **-** | **-** | **-** | **-** |
| **Net carrying amount** | **83,724** | | | | **107,695** |

Impairment losses

The company did not recognise any losses due to the impairment of its property, plant and equipment in 2010.

Restatements under RD-Law 7/1996 of 7 June

No financial expenses were capitalised in 2010.

Property, plant and equipment located abroad

As at 31 December 2010, the Company recorded the following investments in property, plant and equipment located at its Beijing offices:

| | | | | Euro |
|---|---|---|---|---|
| | | | | **2010** |
| **Fixed assets** | **Cost** | **Accumulated depreciation** | **Impairment losses** | **Carrying value** |
| Furnishings | 7,001 | (3,208) | - | 3,793 |
| Data-processing equipment | 10,571 | (9,768) | - | 803 |
| | **17,572** | **(12,976)** | **-** | **4,596** |

Capitalised financial expenses

No financial expenses were capitalised in 2010.

Fully-depreciated assets

At 31 December 2010, the Company had fully depreciated assets valued at 57,102 still in use.

| | Euro |
|---|---|
| Machinery | 30,559 |
| Data-processing equipment | 26,543 |
| | 57,102 |

Property, plant and equipment subject to guarantees

At 31 December 2010, 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 280,221 euros.

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.

## 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**

**2010**
**2009**
**2010**
**2009**
**2010**
**2009**

Available-for-sale financial assets

32,270
32,270
-
-
-
-

Loans and receivables (Note 11)

-

-
-
-
152,537
13,182

**32,270**
**32,270**
**-**
**-**
**152,537**
**13,182**

**Current financial assets**

**Equity instruments**
**Debt securities**
**Credit facilities**
**Derivatives**
**Other**

**2010**
**2009**
**2010**
**2009**
**2010**
**2009**

Assets at fair value through profit or loss (Note 10):
- held for trading

198

289

-

-

-

-

Held-to-maturity investments (Note 9)

-
-
-
-
50,000
1,454,984

Loans and receivables (Note 11)

-
-
-
-
4,212,243
4,139,099

**198**
**289**
**-**
**-**
**4,262,243**
**5,594,083**

**32,468**
**32,599**
**-**
**-**
**4,414,780**

The 2009 figures have been restated since the deferred tax assets are no longer considered a financial asset, according to the definition contained in the General Accounting Plan.

| | Euro | | | | | |
|---|---|---|---|---|---|---|
| | Long-term financial liabilities | | | | | |
| | **Bank borrowings** | | **Debentures and other marketable securities** | | **Derivatives Other** | |
| | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** |
| Borrowings and payables (Note 13) | 1,697,501 | 2,150,953 | 1,594,540 | - | 346,469 | 500,000 |
| Hedging derivatives (Note 12) | - | - | - | - | 33,784 | 63,689 |
| | **1,697,501** | **2,150,953** | **1,594,540** | **-** | **380,253** | **563,689** |
| | **Current financial liabilities** | | | | | |
| | **Bank borrowings** | | **Debentures and other marketable securities** | | **Derivatives Other** | |
| | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** |
| Borrowings and payables (Note 13) | 2,076,818 | 2,463,844 | 30,489 | - | 2,256,778 | 961,040 |
| | **2,076,818** | **2,463,844** | **30,489** | **-** | **2,256,778** | **961,040** |
| | **3,774,319** | **4,614,797** | **1,625,029** | **-** | **2,637,031** | **1,524,729** |

## 7.2 Analysis by maturity

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

| | Euro | | | | | |
|---|---|---|---|---|---|---|
| | **Financial assets** | | | | | |
| | **2011** | **2012** | **2013** | **2014** | **There after** | **Total** |
| **Investments in group companies and associates** | | | | | | |
| - Loans and receivables | 381,228 | - | - | - | - | 381,228 |
| | 381,228 | - | - | - | - | 381,228 |
| **Other financial investments:** | | | | | | |
| - Held-to-maturity investments | 50,000 | - | - | - | - | 50,000 |
| - Loans and receivables | 3,831,015 | 152,537 | - | - | - | 3,983,552 |

| | 2011 | 2012 | 2013 | 2014 | There after | Total |
|---|---|---|---|---|---|---|
| | 4,262,243 | 152,537 | - | - | - | 4,414,780 |

| Financial liabilities | | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | There after | Total |
| Bank borrowings | 2,076,818 | 1,173,720 | 494,558 | 29,222 | - | 3,774,319 |
| Derivatives | - | 33,784 | - | - | - | 33,784 |
| Other financial liabilities | 2,287,267 | 346,469 | 1,594,540 | - | - | 4,228,276 |
| | **4,364,085** | **1,553,973** | **2,089,098** | **29,222** | **-** | **8,036,378** |

## 8. Shares in group companies, jointly-controlled entities and associates

a) Shareholdings in Group companies

The information on group, jointly-controlled and associate companies is detailed below:

| Name and address | Legal status | % interest held | | Voting rights | |
|---|---|---|---|---|---|
| | | **Direct %** | **Indirect %** | **Direct %** | **Indirect (%)** |
| Sonocrew, S.L. Infantas, 27, Madrid | Limited liability company | | | | |

100%

-

100%

-

Producciones y Licencias Plaza de España, S.A. de C.V.
Av Presidente Masaryk 61, piso 2.
México D.F.

Public limited company

99.9984%

-

99.9984%

-

On 9 August 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.

None of the Group companies in which the Company has an interest is listed on the stock exchange.

Below are the figures for capital, reserves and results for the year together with other relevant information as per the companies' individual financial statements:

| | | | | | | | Euro |
|---|---|---|---|---|---|---|---|
| | Equity | | | | | | |
| Company | Capital | Reserves | Other items | Operating results | FY profit (loss) | Carrying value in parent | Dividends received |
| Sonocrew, S.L. | 3,006 | 3,917 | - | 42,094 | 31,531 | 3,006 | - |

| | Equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | Mexican peso | | | | Euro | | |
| Company | Capital | Reserves | 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. | 629,000 | - | (520,274) | (521,794) | 37,756 | (31,288) | - |

In 2010, 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.

## 9. Held-to-maturity investments

This caption includes the following term deposits:

| Description | Incorporation date | Maturity | Interest rate | Accrued interest |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Financial products tax | 30/10/2008 | 30/10/2011 | 0.65% | 350 |

## 10. Financial assets at fair value through profit or loss

This heading includes the following items and amounts:

| | Euro | |
|---|---|---|
| | 2010 | 2009 |
| **Held for trading - listed securities:** | | |
| - SCH shares (Note 7) | 198 | 289 |
| | **198** | **289** |

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 88 euros.

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

## 11. Loans and receivables

| | Euro | |
|---|---|---|
| | 2010 | 2009 |
| **Non-current loans and receivables:** | | |
| - Tax credits (Note 20) | 3,929,006 | 3,167,605 |
| - Clients, non-current | 100,038 | 13,182 |
| - Deposits (Note 7) | 52,500 | - |
| | 4,081,544 | 3,180,787 |
| **Current loans and receivables:** | | |
| - Loans to associates (Note 25) | 372,512 | 630,000 |
| - Current account with Group companies (Note 25) | 352 | 28 |
| - Trade receivables | 3,508,681 | 3,157,258 |
| - Grants pending receipt | - | 107,516 |
| - Taxes | 193,451 | 112,429 |
| - Current investments (Note 25) | 8,364 | 47,512 |
| - Current deposits | 129,403 | 84,056 |
| - Payroll advances | (519) | 300 |
| | 4,212,244 | 4,139,099 |
| | **8,293,788** | **7,319,886** |

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

| | Euro |
|---|---|

| | 2010 | 2009 |
|---|---|---|
| Euro | 7,467,737 | 6,862,066 |
| US dollar | 591,156 | 457,594 |
| Pound sterling | 4,710 | 126 |
| Yen | - | 100 |
| Yuan | 229,064 | - |
| Mexican peso | 1,121 | - |
| | **8,293,788** | **7,319,886** |

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

At 31 December 2010, there was an impairment loss on trade receivables amounting to € 20,731. The age of the accounts is as follows:

| | Euro | |
|---|---|---|
| | **2010** | **2009** |
| More than 6 months | 20,731 | 75,731 |
| | **20,731** | **75,731** |

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.

## 12. Derivative financial instruments

| | Euro | |
|---|---|---|
| | **2010** | **2009** |
| | **Liabilities** | |
| Interest rate swaps – cash flow hedges | 33,784 | 63,889 |
| **Total** | **33,784** | **63,889** |
| Less non-current portion: | 33,784 | 63,889 |
| **Non-current** | - | - |
| **Current** | **33,784** | **63,889** |

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 31 December 2010 was €1,200,000.

At 31 December 2010, fixed interest rates varied between 3.80% and 6.40%. The floating interest rate was 12M Euribor. Gains/ losses recognised in equity under "Value changes adjustments" on interest rate swaps at 31 December 2010 will be transferred to the income statement on a consistent basis until the relevant bank loans are repaid.

## 13. Creditors and payables

| | Euro 2010 | 2009 |
|---|---|---|
| **Creditors and payables, long term:** | | |
| - Bank loans | 1,697,501 | 2,150,953 |
| - Participating loans | 250,000 | 500,000 |
| - Deferred tax liabilities (Note 20) | 39,675 | 37,500 |
| - Debentures and bonds | 1,594,540 | - |
| - Payables transformable into grants | 96,469 | - |
| | 3,678,185 | 2,688,453 |

**Current creditors and payables:**

- Bank loans
Other payables to banks
- Debentures and bonds
Trade creditors
- Fixed asset creditors
- Participating loans
- Taxes and social security payable
- Interest debt
- Related- party transactions

1,354,165
722,653
30,489
1,311,596
250,231
350,000
329,965

| |
|---:|
| 1,814 |
| 171 |
| 1,035,504 |
| 1,421,048 |
| - |
| 328,291 |
| 255,800 |
| 200,000 |
| 174,941 |
| 7,292 |
| 2,008 |
| 4,351,084 |
| 3,424,884 |
| **8,029,269** |
| **6,113,337** |

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:

| **Euro** | **2010** | **2009** |
|---|---:|---:|
| Euro | 7,957,539 | 6,069,324 |
| US dollar | 66,039 | 36,304 |
| Pound sterling | 2,205 | 7,683 |

Yen
Yuan
Mexican peso

| |
|---|
| - |
| 2,718 |
| 768 |
| |
| 25 |
| - |
| - |
| |
| **8,029,269** |
| |
| **6,113,337** |

a) Bank borrowings

The details of the Company's balances with credit institutions at 31 December 2010 are as follows:

| | Non-current balance | Current balance | Total |
|---|---|---|---|
| | | | Euro |
| LOANS | 1,697,501 | 1,354,165 | 3,051,666 |
| **TOTAL LOANS** | **1,697,501** | **1,354,165** | **3,051,666** |

| | Non-current balance | Balance drawn down | Total |
|---|---|---|---|
| | | Euro | |
| CREDIT FACILITIES | - | 623,814 | 623,814 |
| FOREIGN TRADE ADVANCES | - | 98,839 | 98,839 |
| **TOTAL CREDIT FACILITIES AND ADVANCES ON FOREIGN TRADE** | **-** | **722,653** | **722,653** |
| INTEREST ON CURRENT BANK BORROWINGS | - | - | - |
| **TOTAL INTEREST ON CURRENT BANK BORROWINGS** | **-** | **-** | **-** |
| **TOTAL** | **1,697,501** | **2,076,818** | **3,774,319** |

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 |
|---|---|
| 2011 | 350,000 |
| 2012 | 250,000 |
| | 600,000 |

At 31 December 2010, the Company has accrued and unpaid interest on both loans totalling 100,000 euros. The Company paid these outstanding balances (including additional interest) in 2011 prior to the date of these annual accounts.

c) Fixed income securities issue

On 11 November 2010, the Company issued debt securities pursuant to the terms of Stock market Act 24/1988 of 28 July 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 |

## 14. Cash and cash equivalents

At 31 December 2010, the Company's cash situation was as follows:

| | | Euro |
|---|---|---|
| | **2010** | **2009** |
| Cash at bank and in hand | 374,499 | 368,736 |
| Other cash equivalents | - | - |
| | **374,499** | **368,736** |

## 15. Capital and share premium

a) Capital

| | | Euro |
|---|---|---|
| | **2010** | **2009** |
| Registered capital | 2,445,677 | 2,445,677 |
| (Uncalled capital ) | - | - |
| | **2,445,677** | **2,445,677** |

At 31 December 2010, 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 31 December 2010, the share capital was broken down as follows:

| **Shareholder** | **% interest** |
|---|---|
| Jomaca 98, S.L. | 71.63% |
| Stock market | 14.80% |
| Other | 12.73% |
| Treasury shares | 0.84% |

b) Share premium account

This reserve is freely available for distribution.

| | Euro | |
|---|---|---|
| | 2010 | 2009 |
| Share premium account | 9,570,913 | 9,570,913 |
| | **9,570,913** | **9,570,913** |

This caption also reflects, for both 2009 and 2010, 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 118,100.25 euros.

## 16. Reserves and prior-year results

a) Reserves

| | Euro | |
|---|---|---|
| | **2010** | **2009** |
| **Legal and statutory:** | | |
| - Legal reserve | 237,262 | 237,262 |
| | **237,626** | **237,262** |
| **Other reserves:** | | |
| - Voluntary reserves | 1,672,369 | 1,672,369 |
| - Reserves for other adjustments | (733,982) | (720,481) |
| | **938,387** | **951,888** |

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:

| | 2010 | | Euro |
|---|---|---|---|
| | Number of shares | Euro | |
| Starting balance | 158,394 | | 319,737 |
| Additions | 148,424 | | 223,176 |
| Disposals | (100,504) | (195,610) | |
| **Ending balance** | **206,314** | | **347,303** |

The treasury stock in the Company's possession at 31 December 2010 represented approximately 0.84% of the share capital with a nominal value of 20,631 euros and an average acquisition price of 1.50 euros per share. The average sale price of the Company's treasury stock in 2010 was 1.95 euros per share.

## 18. Profit/(loss) for the year

a) Proposal for the distribution of profits

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

| | Euro 2010 | 2009 |
|---|---|---|
| **Available for distribution** | | |
| Profit/(loss) for the year | (2,298,387) | (1,091,224) |
| | **(2,298,387)** | **(1,091,224)** |
| **Application** | | |
| To prior-year losses | (2,298,387) | (1,091,224) |
| | **(2,298,387) (1,091,224)** | |

## 19. 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 | 06-11-07 |

The changes in grants are analyzed below:

Euro

| | 2010 | 2009 |
|---|---|---|
| **Opening balance** | **112,500** | **112,500** |
| Increases | - - | |
| Release to income | - - | |
| Other decreases | (32,752) | - |
| **Closing balance** | **79,748** | **112,500** |

The amount of the capital grant was reduced by the amount shown above was due to a reduction in the final amount of the grant and the application of the 25% tax rate (see Note 20).

## 20. Deferred tax

Set out below is an analysis of deferred tax:

**Euro**

| | Additions 2010 | Additions 2009 | Prior years | Total |
|---|---|---|---|---|
| **Deferred tax assets:** | | | | |
| - Tax credits for tax-loss carryforwards | 753,749 | 620,901 | 181,282 | 1,555,932 |
| - Other tax credits | 7,652 | 93,230 | 2,272,192 | 2,373,074 |
| | **761,401** | **714,131** | **2,453,474** | **3,929,006** |
| **Deferred tax liabilities:** | | | | |
| - Temporary differences- grants | 10,917 | - | (37,500) | |
| - Temporary differences - amortisation | (13,092) | - | - | |
| | **(2,175)** | **-** | **(37,500)** | **(39,675)** |
| **Deferred tax** | **759,226** | **714,131** | **2,415,974** | **3,889,331** |

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 2010 the Company did not compensate any deferred tax assets or liabilities.

The changes in deferred taxes are as follows:

| | Euro 2010 | 2009 |
|---|---|---|
| **Opening balance** | 3,130,105 | 2,415,974 |
| Tax effect of capital grants | 10,917 | - |
| Charged to the income statement (Note 22) | 748,308 | 703,958 |
| 2008 tax credit adjustment | - | 10,173 |
| **Closing balance** | **3,889,331** | **3,130,105** |

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 31 December 2010 totalled 6,223,726 euros.

The Company capitalised the deductions pending application in the amount of 7,652 euros.

## 21. Income and expense

### a) Transactions denominated in foreign currency

Transactions carried out in foreign currency are as follows:

| | | Euro |
|---|---|---|
| | **2010** | **2009** |
| Sales | 1,338,082 | 788,909 |
| Services received | 558,689 | 215,752 |
| | **1,896,771** | **1,004,661** |

### b) Turnover

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

| | | % |
|---|---|---|
| **Market** | **2010** | **2009** |
| Domestic | 50% | 78% |
| International | 50% | 22% |
| | 100% | 100% |

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

| | | % |
|---|---|---|
| **Line** | **2010** | **2009** |
| Trademark licences | 97% | 96% |
| Interactive contents | 2% | 3% |
| Other | 1% | 1% |
| | 100% | 100% |

### c) Raw materials and consumables

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

| | | Euro |
|---|---|---|
| | **2010** | **2009** |
| Raw materials and consumables | 248,955 | 146,629 |
| | **248,955** | **146,629** |

### d) Other operating expenses

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

**Euro**

| | 2010 | 2009 |
|---|---|---|
| Leases | 280,221 | 247,103 |
| Repairs | 85,479 | 44,794 |
| Independent professional services | 1,795,760 | 1,445,958 |
| Insurance | 31,016 | 52,727 |
| Bank fees | 20,142 | 12,609 |
| Advertising and public relations | 255,710 | 113,562 |
| Utilities | 110,474 | 84,171 |
| Other general expenses | 328,075 | 258,215 |
| Other taxes | 90,222 | 68,850 |
| Impairment losses on commercial transactions | 12,760 | 39,587 |
| Reversal of Impairment losses on commercial transactions | (55,000) | - |
| | **2,954,860** | **2,367,579** |

The item titled "other taxes" includes 77,235 euros in taxes paid abroad on income earned and taxed outside of Spain.

e) Staff expenses

| | | Euro |
|---|---|---|
| | **2010** | **2009** |
| Wages, salaries and similar remuneration | 2,477,301 | 2,150,816 |
| Employee benefits | 708,665 | 635,432 |
| Other expenses | 148,429 | 133,897 |
| | **3,334,395** | **2,920,146** |

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

| **CATEGORY** | **Average number of employees** |
|---|---|
| 5-YR DEGREE HOLDER | 27.90 |
| 3-YR DEGREE HOLDER | 6.00 |
| SR. MANAGER | 5.00 |
| MANAGER 1 | 2.00 |
| MANAGER 2 | 1.00 |
| OFFICIAL 1 | 12.63 |
| OFFICIAL 2 | 6.10 |
| ASSISTANT | 1.50 |
| PROGRAMMER | 3.00 |
| OPERATOR | 5.00 |
| OFFICIAL 1 | 1.50 |
| | **71.63** |

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

| | 2010 | | |
|---|---|---|---|
| | **Men** | **Women** | **Total** |
| Average number of employees | 51.60 | 20.02 | 71.63 |

## 22. 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 | | | (2,298,387) | | | (41,486) |
| | Increases | Decreases | | Increases | Decreases | |
| Corporate Income Tax | - | (748,308) | (748,308) | | | |
| Permanent differences | 84,070 | - | 84,070 | | | |
| Temporary differences: | | | | | | |
| - arising during the year | | (52,369) | (52,369) | 41,486 | | 41,486 |
| Offsetting of tax-loss carryforwards | | | - | | | |
| Taxable base (tax result) | | | (3,014,994) | | | |

The permanent differences refer to a donation made to a non-profit organisation and non-resident tax withholdings abroad.

Income tax expense is analysed below:

| | **1. Current-year tax** | **2. Change in deferred tax** | | | | **3. TOTAL (1+2)** |
|---|---|---|---|---|---|---|
| | | Net change deferred tax assets | | | b) Change in deferred tax liabilities | |
| | | Temporary differences | Tax credits for tax-loss carryforwards | Other loans | Temporary differences | |
| **Charged to the income statement:** | | | | | | |
| To continuing operations | | | **753,749** | **7,652** | **(13,092)** | **748,308** |
| **TOTAL** | | | **753,749** | **7,652** | **(13,092)** | **748,308** |

The Company capitalised deductions in the amount of 2,373,074 euros that had not been capitalised in prior fiscal years and deductions generated in 2010 in the amount of 2,365,422 and 7,652 euros, respectively.

The Company has tax loss carryforwards in the amount of 6,223,726 euros.

At the end of the year, the Company's corporate tax returns for the years 2006 to 2009 were open to inspection, as were its tax returns for VAT, income tax, business tax, capital income tax and on-resident tax returns for the years 2006 to 2010.

**23. Risks**

At 31 December 2101, the Company had no contingent assets or liabilities.

**24. Director and senior management compensation**

a) Remuneration of the members of the Board of Directors

In 2010, the members of the Board of Directors received no remuneration for sitting on the Board.

In 2010 as in 2009, 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.

b) Compensation and loans to senior management personnel

In 2010, the Company's senior management staff were paid a total of 576,535 euros while in 2009 that same senior management staff received a total of 528,255 euros in remuneration.

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

Article 229, paragraph 2 of the Spanish Capital Companies Act, as worded in Law 26/2003 (18 July), 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, the positions held by the members of the Board of Directors on the governing bodies of other Group entities are as follows: José María Castillejo Oriol is the Sole Director of Sonocrew, S.L. and Fernando de Miguel Hernández is the Chairman of the Board of Directors of the Group company Producciones y Licencias Plaza de España, S.A. de C.V. Neither one received any remuneration for the positions held with these Group companies (Note 8).

## 25. Other related-party transactions

The transactions set out below were carried out with related parties:

| | Euro | |
|---|---|---|
| | Income | Expenses |
| Sonocrew, S.L. | 221,186 | 34,853 |
| Jomaca 98, S.L. | 8,364 | 108,000 |
| | **229,550** | **142,853** |

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 obtained by the company in the amount of 372.512 euros (Note 11).

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

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

Ending related-party balances

| | Euro | |
|---|---|---|
| **Current accounts with group companies** | **2010** | **2009** |
| Sonocrew | 134 | 28 |
| Producciones y Licencias Plaza de España, S.A. de C.V. | 218 | - |
| | **352** | **28** |
| **Advances to creditors** | | |
| Jomaca 98, S.L. | 13,620 | - |
| | **13,620** | **-** |
| **Short-term loans** | | |
| Jomaca 98, S.L. (Principal + Interest) (Note 11) | 380,876 | 677,512 |
| | **380,876** | **677,512** |

## 26. 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 2010, there were no major environmental expenditures.

## 27. Events after the balance sheet date

Subsequent to the year-end balance sheet date, the Company signed a 3-year loan agreement with a private entity in the amount of 2.5 million euros at a fixed annual interest rate of 9.75%. To guarantee the loan, Jomaca 98, S.L., the Company's majority shareholder, pledged shares equivalent to 22.45% of Zinkia’s share capital. This financing operation has reinforced Zinkia Entertainment's financial position and has provided the company with funding to move forward with its business plan.

As of the date of these annual accounts, the Company was evaluating the possibility of acquiring an interest in an English company that specialises in the international distribution of audiovisual contents for families and children. Should this acquisition materialise, valuable synergies would be created which would complement Zinkia's operations in the international trademark management sector.

On 22 September 2010, an arbitration action was filed with the European Arbitration Court in Strasbourg against ITV Global Entertainment Ltd. requesting the fulfilment of the clause calling for the return of the territories where this company had been distributing our contents. As of the date of these financial statements, the Company expects to reach an agreement with the other party which is satisfactory to both sides and thus to avoid having to proceed with the arbitration.

## 28. Auditors' fees

The professional fees charged by Garrido Auditores, S.L. for auditing and other services totalled 6,604 and 11,000 euros, respectively.

The Company also paid fees in the amount of 31,343 euros to Garrido Asesores Externos, S.L.

## 29. Other disclosures

The Group is controlled by Jomaca 98, S.L., which owns 71.63% 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.

On 18 January 2011, the Company reported a Relevant Event indicating that the Company had not signed the global video game distribution agreement that was mentioned in previously published annual forecasts. Subsequent to the balance sheet date, the Company was still negotiating the terms of this contract, the income from which, initially forecast for 2010, could be generated in 2001 and thereafter.

The Company’s revenues failed to meet the expectations and forecasts communicated in the Document on the Inclusion in the Alternative Stock Market to a large extent due to this event. Those forecasts were modified when the Annual Accounts for 2009 were published and were also included in the Informative Prospectus on the debenture securities issued in 2010.

The Directors expect that the forecast reduction in revenues will be offset by an increase in other income due to delays in the North American market opening up and the intensification of the products and trademarks marketing by the Company within the European Union. This strategy of intensification and market diversification, without overlooking the more firmly established markets, should enable the Company to increase its revenues and thereby achieve the initially estimated parameters, albeit slightly later than originally planned.

The Company is also intensifying the commercial marketing of its brands in markets where it began operating in 2010, such as the United State, Italy, Latin America, etc., by adding new platforms to broadcast our contents and signing licence agreements. Without overlooking the more firmly established markets, this territorial diversification strategy should enable us to increase revenues.

Furthermore, as discussed in point 27 of this report, if an agreement is reached with ITV, we will be in a position to distribute and operate our contents directly, world-wide. This would in turn enable us to develop new global strategies and to achieve commercial profits that would be even higher than those earned thus far.

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

Pursuant to the terms of this law, at year end the Company had a balance payable to suppliers in the amount of 34,657.46 euros which had exceeded the legally-established payment deadline.

**Approval of the Annual Accounts**

These Annual Accounts are signed by the members of the Board of Directors, with the exception of Miguel Valladares García who was out of the country on personal and professional business at the time and thus could not sign the Annual Accounts at the time of the Board of Directors meeting held in Madrid on 30 March 2011.

## 30. Guarantees

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

**ZINKIA ENTERTAINMENT, S.A.**
**2010 DIRECTORS' REPORT**

**Business Performance and Company Situation**

In 2010, the Company's turnover increased by 5.5% to 3,945,306 euros compared to 3,740,332 euros in 2009. Once again, 97% of our income came from audiovisual product brands marketed by the Company.

Last year, the revenues from foreign business increased and accounted for 50% of total turnover compared to 22% the year before.

Once again, the greatest disparity in our revenues compared to forecasts occurred in the territories managed directly by ITV. We hope that this situation will be resolved in the near future.

As for interactive content and as stated in the relevant event, the Company did not sign the global video game distribution contract last year as it had planned to do. The Company is still negotiating the terms of the agreement with the distribution company at this time.

Also worthy of special note are the revenues from our online contents which have increased considerably and for which the outlook is good for the coming years.

In 2010, the Company adjusted operating costs to keep them on par with the evolution of income. Consequently, both general expenses and personnel costs were well below budget.

The Company's financial position is balanced, with equity in the amount of 9,501,287 euros compared to total debt in the amount of 8,076,054 euros. Last year, the situation in the financial markets continued to be as restrictive as it had been the year before in terms of access to credit. The Company therefore decided to issue securities under the supervision of the CNMV.

**Post-balance sheet events**

In keeping with the objective of consolidating financing sources and adapting maturity dates to the Company's business cycles, subsequent to the closing date of the 2010 financial statements, the Company signed a 3-year loan with a private entity in the amount of 2.5 million euros with a fixed annual interest rate of 9.75%. To guarantee the loan, Jomaca 98, S.L., the Company's majority shareholder, pledged shares equivalent to 22.45% of Zinkia's share capital. This financing operation has reinforced Zinkia Entertainment's financial position and has provided the company with funding to move forward with its business plan.

As of the date of these annual accounts, the Company was evaluating the possibility of acquiring an interest in an English company that specialises in the international distribution of audiovisual contents for families and children. Should this acquisition materialise, valuable synergies would be created which would complement Zinkia's operations in the international trademark management sector.

On 22 September 2010, an arbitration action was filed with the European Arbitration Court in

Strasbourg against ITV Global Entertainment Ltd. requesting the fulfilment of the clause calling for the return of the territories where this company had been distributing our contents. As of the date of these financial statements, the Company expects to reach an agreement with the other party which is satisfactory to both sides and thus to avoid having to proceed with the arbitration.

**Outlook for the Company**

For fiscal year 2011 and thereafter, the Company expects a considerable increase in turnover based on the introduction of Pocoyó in new markets and the development of new audiovisual contents and brands.

The settlement of the Company's dispute with ITV would allow us to market our products directly in the territories where they are currently distributed by ITV.

The Company will also continue to consolidate and expand the distribution of our products in those markets where our products are already present.

Also in 2011, we expect to reach a definitive agreement on the distribution of our catalogue of interactive contents.

Regarding new projects, the Company continues to work on new developments and to negotiate commercial agreements that would move the developments into the production stage.

**Research & Development.**

Zinkia 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 Company hedges its interest rate risks in order to reduce the impact of interest fluctuations on the 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 such Act, in 2010 the Company acquired la 148,424 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 Alternative Securities Market. Also during the year and again in compliance with the terms of the contract mentioned above, the Company disposed of 100,504 treasury shares, incurring losses of 13,501 euros on these transactions which were carried as a reduction in equity on the balance sheet. At year end, the Company possessed 206,314 shares with a par value of 20,631 euros, which accounted for 0.84% of share capital.

**APPENDIX II**

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

IDENTIFICATION OF ISSUER FISCAL YEAR 2010

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. | 71.630 |
| MIGUEL FERNANDO VALLADARES GARCÍA | 4.780 |
| ALBERTO DELGADO GAVELA | 3.580 |

**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:**

**<u>MEMBERS OF THE BOARD OF DIRECTORS/GOVERNING BODY</u>**

| Name of director of member of governing body | Representative | Date of last appointment | Title |
|---|---|---|---|
| JOSÉ MARÍA CASTILLEJO ORIOL | | 26.05.2009 | EXECUTIVE DIRECTOR |
| FERNANDO DE MIGUEL HERNÁNDEZ | | 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 PROPRIETARY |

| | | | |
|---|---|---|---|
| | | | DIRECTOR |
| LUIS SÁNCHEZ DE LAMADRID FOLGUERA | | 05.05.2010 | EXTERNAL PROPRIETARY 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 |
| FERNANDO DE MIGUEL HERNÁNDEZ | PRODUCCIONES Y LICENCIAS PLAZA DE ESPAÑA, SADECV | CHAIRMAN OF THE BOARD |

**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** | 0 | 0 |
| **Variable remuneration** | 0 | 0 |
| **Per diems** | 0 | 0 |
| **Other** | 0 | 0 |
| **Total:** | 0 | 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 |
|---|---|
| | |
| **Total senior management remuneration (in thousands of euros)** | 577 |

**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:**

| 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 |
| ALBERTO DELADO 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, with the exception of those which cannot be delegated, up to a limit of 2,000,000 euros, above which the signature of the Chairman of the Board is also required.

**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.**

Yes No

**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 | REPAID CAPITAL ON LOANS GRANTED BY ZINKIA TO JOMACA | 305 |

**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 | REPAID CAPITAL ON LOANS GRANTED BY ZINKIA TO | 305 |

| | | | | |
|---|---|---|---|---|
| | | | JOMACA | |

**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 and must abstain from attending or participating in the debates on matters in which he or she has a personal interest.

a. In addition, the Director is considered to have a personal interest when any one of the following persons is involved:

i. the spouse or person with whom the Directors has a similar personal relationship, unless the operations affect only that person's private property;

ii. the Director's children, parents, brothers and sisters and their respective spouses or others with whom they have a similar personal relationship;

iii. the children, parents, brothers and sisters of the spouse or other person with whom the spouse has a similar personal relationship.

iv. related parties and entities which may be significantly influenced by any of the persons described above.

b. If the Director is a legal entity, related parties include:

i. partners or shareholders who, in respect of the legal entity Director, can be classified in any of the categories enumerated in article 42 of the Commerce Code.

ii. Other directors as well as liquidators and legal representatives with general powers to act on behalf of the legal entity Director.

iii. Companies that are part of the same business group, as this is defined in article 42 of the Commerce Code.

iv. Persons who are considered related parties to the legal entity Director or its representative(s).

2. The Director may not take take part in professional or commercial transactions, directly or indirectly, with the Company unless he or she reports the conflict of interest to the Board in advance and the Board approves the transaction.

3. When the transactions are part of the company's ordinary business operations or when they are recurring transactions that take place under market conditions, the general authorisation of the Board of Directors shall suffice.

**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 2010 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

A General Meeting shall 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 boy must also include the matter or matters stated in the request on the meeting agenda.

Article 7. Announcement of the General Meeting

Shareholders representing at least five percent of the share capital may request the publication of a supplement to the agenda of the General Meeting of Shareholders containing one or more additional agenda items. Such requests must be made using a reliable means of communications which must be received at the Company's registered address within five days of the publication of the meeting announcement.

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 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;

iv. 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; 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 5 May 2010 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 2009 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. Authorisation of the Board of Directors to issue non-convertible simple debentures, bonds and other fixed income securities of a similar nature up to the legally-applicable limits.

Passed with 100% of the votes.

Five. Authorisation for the Company to acquire treasury stock pursuant to the terms of article 75 of the Revised Text of the Public Limited Companies Act.

Passed with 100% of the votes.

Six. Establishment of the number Directors on the Board of Directors within the statutory limits and appointment of new Directors.

Passed with 99.97% of the votes.

Seven. Amendment of articles 1, 8 and 18 of the Company's Articles of Association.

Passed with 100% of the votes.

Eight. Modification of the preamble and articles 9, 15, 21, 25 and 26 of the Rules of the General Meeting of Shareholders.

Passed with 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 2010 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: As of the date of this report, there are ten 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 seven, compared to two executive directors, 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 on independent director on the Board of Directors and the Company intends to add another independent director as soon as possible.

- 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. and as specified in point F.1, on 13 December 2010, Augustín Vitórica Gutiérrez Cortines stepped down as a member of the Board of Director, where he was an independent director. It is the Company's intention to add another independent director to the Board as soon as possible.

On 30 March 2011, the Board of Directors of ZINKIA ENTERTAINMENT, S.A. agreed to accept the resignation of Luis Sánchez de Lamadrid Folguera as a director for reasons of incompatibility, leaving a vacancy on the Board of Directors. The Board of Directors also agreed to appoint Inés Rovera as the Secretary of the Board in place of Sonsoles Seoane. Both of these changes were notified to the CNMV and the MAB in the form of relevant events filed on 31 March 2011.

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 21.1 of the Rules of the Board of Directors, since the Company's shares began to trade on the Mercado Alternative Bursátil, independent directors must step down from their posts after 12 years of uninterrupted service.

------------------------------------------------------------------------------------------------------------------------

This Annual Corporate Governance Report was approved by the Board of Directors or governing body at the session held on 30 March 2011.

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

**DECLARATION OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL REPORT**

The members of the Board of Directors of ZINKIA ENTERTAINMENT, S.A. listed below declare that to the best of their knowledge the Company's annual financial information included in the individual annual accounts of ZINKIA ENTERTAINMENT, S.A. for the 2010 fiscal year, prepared by the Board of Directors at the meeting held on 20 March 2011 and prepared according to applicable accounting principles, offers a true image of the equity, financial situation and results of ZINKIA ENTERTAINMENT, S.A. and that the Directors' Report includes an accurate analysis of the Company's evolution, business results and position, along with a description of the principal risks and uncertainties faced by the Company.

Madrid, 30 March 2011

José María Castillejo Oriol

Fernando de Miguel Hernández

Alberto Delgado Gavela

Juan José Güemes Barrios

Mariano Martín Mampaso

Miguel Valladares García

Alejandro Francisco Ballestero de Diego

Iñigo Mencos Valdés

Luis Sanchez de Lamadrid Folguera