GARRIDO
AUDITORES

ZINKIA ENTERTAINMENT, S.A.
AND SUBSIDIARIES

Audit Report,
Consolidated Financial Statements
and Consolidated Management Report
at December 31, 2012

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

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

AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. We have audited the consolidated financial statements of Zinkia Entertainment, S.A. (the parent company) and subsidiaries (the Group) comprising the consolidated statement of financial position at December 31, 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated financial statements for the year then ended. As indicated in Note 2 to the accompanying consolidated financial statements, the directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole, based on our audit work conducted in accordance with the audit regulations in force in Spain, which requires the examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. In our opinion, the accompanying consolidated financial statements for 2012 present fairly, in all material respects, the consolidated equity and consolidated financial position of Zinkia Entertainment, S.A. and subsidiaries at December 31, 2012 and the consolidated results of their operations and consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

3. The accompanying consolidated directors' report for 2012 contains the explanations that the parent company's directors consider appropriate regarding the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information contained in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2012. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Zinkia Entertainment, S.A. and subsidiaries.

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

David Jiménez Matías
April 23, 2013

Garrido Auditores, S.L.-R.M.Madrid, tomo 20.095, folio 17, sección 8, hoja M-354.653, inscripción 1ª
Inscrita en el R.O.A.C. con el número S1838-CIF: B-83964569

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

AUDIT REPORT, CONSOLIDATED FINANCIAL STATEMENTS, CONSOLIDATED MANAGEMENT REPORT AND ANUAL REPORT ON CORPORATE GOVERNANCE FOR YEAR ENDED DECEMBER 31st, 2012

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish-language version prevails.

TABLE OF CONTENTS OF THE CONSOLIDATED ANNUAL ACCOUNTS OF ZINKIA ENTERTAINMENT

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER, 31st 2012 (In EUR)

Euro

ASSETS	Note	12/31/2012	12/31/2011
Intangible assets	7	9,729,969	9,849,888
Goodwill	7.1	897,307	866,929
Other intangible assets	7.2	8,832,662	8,982,959
Property, plant and equipment	8	118,425	136,497
Non-current financial liabilities	9	28,183	32,270
Deferred tax assets	16	4,425,759	4,589,657
Non-current trade and other receivables	10	3,979,292	411,644
NON-CURRENT ASSETS		18,281,628	15,019,956
Trade and other receivables	10	8,013,860	3,454,966
Corporate income tax assets		2,774	6,363
Other tax receivables	16	110,314	54,802
Current financial assets	9, 18	595,703	651,090
Cash and cash equivalents	11	2,913,279	489,590
Other current assets	15	64,028	31,010
CURRENT ASSETS	16	11,699,958	4,687,821
CURRENT ASSETS		29,981,586	19,707,777

EQUITY AND LIABILITIES	Note	12/31/2012	12/31/2011
Issued capital attributable to equity holders of the parent	12	2,445,677	2,445,677
Share premium	12	9,570,913	9,570,913
Reserves	12	799,911	1,126,380
Treasury shares	12	(403,841)	(950,560)
Translation differences	12	57,786	(1,255)
Retained earnings	12	(3,131,607)	(3,357,604)
Profit attributable to the equity holders of the parent		1,019,289	54,447
TOTAL EQUITY OF THE PARENT		10,358,128	8,887,997
Profit attributable to minority interest		69,495	171,551
Minority interest	12	294,866	121,863
EQUITY		10,722,488	9,181,411
Deferred income	13	130,978	105,542
Non-current financial liabilities	14	6,827,306	4,867,597
Deferred tax liabilities	16	73,588	51,200
NON-CURRENT LIABILITIES		7,031,871	5,024,338
Current financial liabilities	14	4,572,298	2,320,310
Current trade and other payable	17	5,739,579	2,450,935
Corporate income tax payable	16	193,625	82,149
Other tax payable	16	473,469	648,634
Current accruals and deferred income		1,248,256	-
CURRENT LIABILITIES		12,227,226	5,502,027
TOTAL EQUITY AND LIABILITIES		29,981,586	19,707,777

Notes 1-27 are an integral part of the consolidated statement of financial position at December 31st, 2012

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT AT DECEMBER, 31st 2012 (In EUR)

Euro	Note	12/31/2012	12/31/2011
Revenue from operations	19	14,254,063	7,788,789
Other operating income	19	1,349,658	5,432,936
Total Revenue		**15,603,721**	**13,221,726**
Cost of goods sold	19	(276,791)	(406,352)
Cost of employees	19	(3,751,281)	(3,724,928)
Other operating expenses	19	(7,058,018)	(7,197,927)
Amortizations and depreciations	19	(1,617,344)	(1,784,932)
Total expenses		**(12,703,434)**	**(13,114,140)**
Operating income		**2,900,288**	**107,586**
Net financial expense	19	(1,244,966)	(769,739)
Impairment and gain/losses on sales of assets	7, 8	(110,827)	415,889
Profit before tax		**1,544,494**	**(246,264)**
Corporate income tax	16	(455,710)	472,262
Profit for the period		**1,088,784**	**225,998**
Profit attributable to minority interest		69,495	171,551
Profit attributable to the equity holders of the parent		**1,019,289**	**54,447**
Basic and diluted earnings per share	24	0.0424	0.0023

Notes 1-27 are an integral part of the consolidated income statement at December 31st, 2012 zinkia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AT DECEMBER, 31st 2012 (In EUR)

Euro	12/31/2012		12/31/2011	
	Equity holders of the parent	**Minority interest**	**Equity holders of the parent**	**Minority interest**
Profit (loss) for the period	1,019,289	69,495	54,447	171,551
Income and expenses recognized directly in equity	61,036	-	27,007	-
Reclassification included in the income statement		-		-
Income tax impact	-	-	-	-
TOTAL COMPREHENSIVE INCOME RECOGNIZED	**1,080,326**	**69,495**	**81,455**	**171,551**

Notes 1-27 are an integral part of the consolidated statement of comprehensive income at December 31st, 2012

B) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT DECEMBER, 31st 2012 (in EUR)

	NOTES	ISSUED CAPITAL	SHARE PREMIUM	RESERVES-PARENT	RESERVES-SUBSIDIARIES	TRANSLATION DIFFERENCES	TREASURY SHARES	RETAINED EARNINGS	PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	UNREALISED ASSETS AND LIABILITIES REVALUATION RESERVE	TOTAL EQUITY OF THE PARENT	MINORITY INTEREST	TOTAL
FINANCIAL POSITION AT DECEMBER, 12.31.2011		2,445,677	9,570,913	1,181,022	(19,144)	(1,288)	(950,640)	(3,357,504)	(94,476)	(6,999)	8,749,075	229,406	8,978,480
Adjustments due to mistakes 2011					-		-	-	[illegible]		[illegible]	[illegible]	[illegible]
ADJUSTED POSITION AT JANUARY, 01.01.2012		2,445,677	9,570,913	1,181,022	(19,144)	(1,288)	(950,640)	(3,357,904)	44,447	(6,999)	8,887,997	293,413	9,181,411
Total comprehensive income recognized									1,019,299	1,998	1,021,296	69,490	1,090,710
Transactions with shareholders		-	-	(157,170)	-		546,719	-	-	-	389,549		389,549
Capital increases													-
Trading in treasury shares	12			(157,170)			546,719				389,549		389,549
Other movements in equity					(171,296)	49,040		779,958	(44,447)		49,299	1,443	50,742
FINANCIAL POSITION AT DECEMBER 12.31.2012		2,445,677	9,570,913	984,252	(190,440)	47,752	(403,941)	(2,577,606)	1,019,299	(5,001)	10,398,129	364,347	10,772,486

	NOTES	ISSUED CAPITAL	SHARE PREMIUM	RESERVES-PARENT	RESERVES-SUBSIDIARIES	TRANSLATION DIFFERENCES	TREASURY SHARES	RETAINED EARNINGS	PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	UNREALISED ASSETS AND LIABILITIES REVALUATION RESERVE	TOTAL EQUITY OF THE PARENT	MINORITY INTEREST	TOTAL
FINANCIAL POSITION AT DECEMBER, 12.31.2010		2,445,677	9,570,913	1,379,549	3,927	(477)	(347,273)	(1,091,226)	(2,266,278)	(33,784)	9,459,300		9,459,300
ADJUSTED POSITION AT JANUARY, 01.01.2011		2,445,677	9,570,913	1,379,549	3,927	(477)	(347,273)	(1,091,226)	(2,266,278)	(33,784)	9,459,300	-	9,459,300
Total comprehensive income recognized									(94,476)	27,785	(66,691)	107,733	41,042
Transactions with shareholders		-	-	(24,126)	-	-	(603,287)	-	-	-	(627,383)		(627,383)
Capital increases													-
Trading in treasury shares	12			(24,126)			(603,287)				(627,383)		(627,383)
Other movements in equity					(23,071)	(770)		(2,266,278)	2,266,278		(23,840)	121,887	98,072
FINANCIAL POSITION AT DECEMBER 12.31.2011		2,445,677	9,570,913	1,181,022	(19,144)	(1,288)	(950,560)	(3,357,504)	(94,476)	(6,999)	8,749,074	229,406	8,978,480

Notes 1-27 are an integral part of the consolidated statement of changes in equity at December 31st, 2012

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT AT DECEMBER, 31st 2012 (In EUR)

	12/31/2012	12/31/2011
A) CASH FLOWS FROM FROM OPERATING ACTIVITIES		
1. Profit before tax	1,544,494	(246,264)
2. Non cash adjustments for	2,960,584	2,123,173
a) Depreciation and amortisation charge	1,617,344	1,784,932
b) Non-current assets provisions	152,601	(418,032)
c) Results in non-current assets operations	(2,145)	(3,230)
d) Financial income	(37,536)	(24,811)
e) Financial costs	974,467	801,473
f) Exchange differences	155,435	(6,923)
g) Recognition of grants	(12,554)	(15,609)
h) Other income and costs	112,972	5,373
3. Changes in working capital	(3,684,613)	929,070
a) Trade and other receivables	(4,822,837)	1,833,844
b) Other current assets	(33,018)	19,774
c) Trade and other payables	3,123,169	(612,941)
d) Other current liabilities	1,248,256	
e) Other non-current assets and liabilities	(3,200,183)	(311,607)
4.- Other cash flows from operating activities	(889,554)	(657,103)
a) Interest paid	(544,954)	(587,357)
b) Dividends received		9
c) Collections (payments) for corporate income tax	(237,129)	(109,508)
d) Other payments (collections)	(112,972)	35,630
e) Interest collect	5,501	4,123
5.- Net cash flows from operating activities (1+2+3+4)	(69,090)	2,148,876
B) CASH FLOW FROM INVESTING ACTIVITIES		
6- Investments payments (-)	1,733,244	6,445,733
a) Investments in associates		50,000
b) Investments in companies,net of cash and equivalents acquired		442,356
c) Investments in intangible assets	1,410,589	1,637,093
d) Investments in property, plant and equipment	38,385	26,719
e) Investments in other financial assets	284,270	4,289,565
7. Investments proceeds (+)	371,683	4,310,729
a) Proceeds on financial investments in associates	27,107	
b) Proceeds on other financial invesments	344,576	4,310,729
8. Net cash flows from investing activities (7-6)	(1,361,561)	(2,135,004)
C) CASH FLOWS FROM FINANCING ACTIVITIES		
9. Equity	389,549	(627,383)
a) Treasury shares acquisition	(39,369)	(834,664)
b) Proceeds from disposals of treasury shares	428,918	207,281
10. Finance liabilities	3,542,581	686,611
a) Issue	5,100,712	3,111,780
1. Proceeds from issue of debentures and bonds		-
2. Proceeds from loans and borrowings	1,422,065	216,341
3. Proceeds from other liabilities	3,678,647	2,895,439
b) Repayments	1,558,131	2,425,169
1. Repayments of loans and borrowings	997,317	1,638,322
2. Repayments of other liabilities	560,813	786,847
11. Dividends payments		
a) Dividends	-	-
12. Net cash flows from financing activities (9+10+11)	3,932,130	59,228
D) EFFECT ON EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENT	(77,791)	6,923
E) NET INCREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)	2,423,689	80,023
Cash and cash equivalents at January, 1st	489,590	409,567
Cash and cash equivalents at December, 31st	2,913,279	489,590

Notes 1-27 are an integral part of the consolidated cash flow statement at December 31st, 2012

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER, 31st 2012
(In EUR)

1. General information and business activity

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

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

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

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

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

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

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

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

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

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

Zinkia is the parent company of the Group of companies listed in these Consolidated Financial Statements. The subsidiaries' business activities include distributing, producing and marketing audiovisual and interactive products and musical recordings, all at the international level.

Jomaca 98, S.L. holds a 64.71% Stake in Zinkia Entertainment, S.A.

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

Name and address	Legal status	Activity	Audited	12/31/2012 % interest held Direct %	12/31/2012 % interest held Indirect %	12/31/2012 Voting rights Direct %	12/31/2012 Voting rights Indirect %	12/31/2011 % interest held Direct %	12/31/2011 % interest held Indirect %	12/31/2011 Voting rights Direct %	12/31/2011 Voting rights Indirect %
Sonocrea, S.L. Infantas 27, Madrid	Limited liability company	Music publisher	No	100%	-	100%	-	100%	-	100%	-
Producciones y Licencias Plaza de España, S.A. de C.V. Av Presidente Masaryk 61, piso 2, México D.F.	Variable capital firm	Exploitation and management of audiovisual rights	No	100%	-	100%	-	100%	-	100%	-
Cake Entertainment, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Exploitation and management of audiovisual rights	Yes	51%	-	51%	-	51%	-	51%	-
Cake Distribution, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Exploitation and management of audiovisual rights	Yes	-	51%	-	51%	-	51%	-	51%
Cake Productions, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Exploitation and management of audiovisual rights	No	-	51%	-	51%	-		-	
HLT Productions BV Van der Hasseltlaan 42, 1213 CE Hilversum, The Netherlands	Private limited company	Exploitation and management of audiovisual rights	No	-	51%	-	51%	-	51%	-	51%

All subsidiaries have been consolidated using the full consolidation method.

The scope of consolidation underwent the following changes in 2012 and 2011:

- In 2012 a third subsidiary has been started up named Cake Productions Ltd. This company is 100% Cake Entertainment Ltd. subsidiary
- A 51% stake in the company Cake Entertainment, Ltd. was acquired on June, 2nd 2011.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

These Consolidated Financial Statements of the Zinkia Entertainment Group for year 2012 were formulated:

- By the directors of the parent company, Zinkia Entertainment, S.A., at Board of Directors' meeting held on April, 4th 2013.

- Pursuant to the terms of International Accounting Standard and International Financial Reporting Standards (IFRS), as approved by the European Union, in accordance with (EC) Law 1606/2002 of the European Council and Parliament.

- So as to show a true image of the equity and financial position of the consolidated Group at December, 31st 2012 and the results of its operations and the changes in the Group's consolidated equity during the period ended on the said date.

- Based on the accounting records of the parent company and the Group's subsidiaries.

- The Consolidated Financial Statements were prepared on a historical cost basis, with the exception of the derivative financial instruments and available-for-sale financial assets, which are shown at fair value.

b) Accounting policies applied

The Group's Consolidated Financial Statements at December, 31st 2012 were prepared in accordance with International Financial Reporting Standards and International Accounting Standards applicable at this date.

The following International Standards have not been applied by the Group for not being required to date of financial position statement:

- IFRS 9: Financial Instruments. It will be effective 1.1.2015
- IFRS 10: Consolidated Financial Statements. It will be effective 1.1.2014
- IFRS 11: Joint Ventures. It will be effective 1.1.2013
- IFRS12: Information about interests in other entities. It will be effective 1.1.2014
- IFRS 13: Fair Value. It will be effective 1.1.2013
- IAS 19 (2011): Employees Benefits. It will be effective 1.1.2013
- IAS 27 (2011): Separated Financial Statements. It will be effective 1.1.2014
- IAS 28 (2011): Investment in Associates and Jointly controlled entities. It will be effective 1.1.2013

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

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

c) Responsibility for information and estimates made

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

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

- Impairment of assets:

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

- Useful lives of PPE and intangible assets:

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

- Tax credits:

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

- Corporate tax expense:

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

d) <u>Consolidation principles</u>

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

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

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

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

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

  Any negative difference is credited to the consolidated income statement.

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

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

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

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

e) Functional currency

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

The consolidated financial statements are presented in euro, which is the parent Company's functional and presentation currency.

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

f) Reasons for uncertainly - Negative Working Capital

The consolidated statement of financial position shows a negative Working Capital of EUR 527,268 at December, 31st 2012, caused mainly by the attention and maturity of the debt of the Group and its investments.

- *Renegotiation process*

During the year, the parent company has concluded negotiations with four financial entities amounting to 1.1 million euro, EUR 310,000, EUR 160,000, EUR 117,000, also the National Innovation Company amounts to EUR 500,000. So at the year end due amounts were current on payments.

- *Overdue balances at December, 31st and measures taken by Banks*

The overdue balances with financial entities at December, 31st 2012 amount to EUR 70,300 and EUR 375,180. About the first one amount was regularized by the company in February, 2013. The second overdue balance has been regularized by the company through a refinancing agreement so loans shown in financial liability are regularized.

- *New shares in order to generate cash*

In order to solve financial resources deficit in 2012, different alternatives have been considered while traded with potential funders also included the current;

- Increased incomes due to international expansion of the brand thereby obtaining cash flow from different countries.
- Operating profits coming from digital licenses, online content and related advertising. Collection period of these kinds of licenses is lower than traditional and it increases recurrent incomes.

- On December, 4th 2012 the parent company was informed about the granting of financial aid by the Ministry of Industry, Tourism and Energy. This economic aid amounts to EUR 2,421,347 which is a grant amounts to EUR 283,196 and a loan amounts to EUR 2,137,711. The purpose of this aid is a new project which will be developed with the company's own staff so it will cover regular costs.
- The Group is currently in a process of seeking funds to develop the business plan with several options (financial entities, investment funds, debt issue...).

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

The parent Company's directors believe that these actions, which will take effect during the year 2013, will lead to the necessary financial resources to meet all the commitments of the Group.

g) Correction of errors

In the current year has been identified an accounting error in 2011 statements of the subsidiary Cake Entertainment, as an expense was recorded which would be included in the accounts receivable item. For this reason, the 2011 comparative information has been modified and profit for the period is EUR 225,998 instead of EUR 23,256.

3. Accounting principles and policies and measurement criteria applied

The following accounting principles and measurement criteria were used to formulate these Consolidated Financial Statements of the Zinkia Entertainment Group for year 2012 pursuant to the terms of the International Financial Reporting Standards adopted by the European Union and in force in 2012:

3.1 Intangible assets

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

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

a) Research and development expenses

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

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

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

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

b) Licenses, trademarks and intellectual property

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

c) Computer software

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

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

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

3.2 Goodwill

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

- If attributable to specific equity items of the acquired companies, by increasing the value of the assets whose fair market values are higher than the net carrying values shown on the statement of financial position, which are treated similarly to the rest of the Group's assets from an accounting perspective.
- If attributable to non-contingent liabilities, by recognising those on the consolidated statement of financial position if it is likely that the outflow of resources to settle the obligation will incorporate economic benefits and the fair value can be reliably measured.
- If attributable to specific intangible assets, by explicitly recognising them on the consolidated statement of financial position as long as the fair value on the acquisition date can be reliably determined.
- Any remaining differences are recognised as goodwill.

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

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

3.3 Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

3.4 Interest costs

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

3.5 Losses due to impairment of non-financial assets

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

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

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

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

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

3.6 Leases

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

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

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

b) When the Company is the lesser – Operating leases

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

3.7 Financial instruments

Financial assets

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

- Loans and accounts receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included in current assets, except for maturities longer than 12 months after the statement of financial position date which are classified as non-current assets. Loans and receivables are included in "Loans to companies" and "Trade and other receivables" in the consolidated statement of financial position. Financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortised cost. Accrued interest is recognised at the effective interest rate, which is the discount rate that brings the instrument's carrying amount into line with all estimated cash flows to maturity. However, trade receivables falling due in less than one year are carried at their face value at both initially and subsequently, provided that the effect of not updating the cash flows is not significant. At least once a year at year end, the necessary value adjustments are made to account for impairment when there is objective evidence that all receivables will not be collected. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate prevailing at the date of initial recognition. Value adjustments and reversals, where applicable, are recognised in the consolidated income statement.

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

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

On the enclosed consolidated statement of financial position, the payables are classified by maturity, i.e., those maturing within twelve months are classified as current and those maturing in more than twelve months are classified as non-current.

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

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

Financial derivatives and accounting hedges

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

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

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

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

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

3.8 Inventories

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

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

The Group adheres to a policy of setting up provisions to cover the risk of obsolescence, deducting these from inventories for the purposes of the consolidated statement of financial position.

3.9 Equity instruments

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

3.10 Treasury stock

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

3.11 Provisions and contingent liabilities

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

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

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

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

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

3.12 Severance pay

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

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

The Group has no other obligations to employees.

3.13 Deferred income

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

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

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

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

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

3.14 Revenue recognition

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

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

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

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

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

The Group recognises royalty's revenues when they arise if it is possible.

In both cases, the Group recognises incomes according to the accrual principle either by agreement date or by income generation period.

- Incomes and supplies provided by Cake: Incomes provided by Cake Entertainment to the consolidated figures come from the granting of licenses to broadcast TV children content in accordance with the parent company's business. The supplies are costs incurred for work performed by other companies for the implementation of children's series in different territories. The main expense of this item is dubbing costs. In 2011 there was an amount recorded as supplies which should have been recorded as other professional services. In these Financial Statements, the Group has considered reclassify that amount in the correct item in order to the last year figures could be compared.

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

3.15 Foreign currency transactions

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

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

3.16 Income tax

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

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

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

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

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

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

3.17 Environmental Information

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

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

3.18 Earnings per share

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

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

4. Segment information

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

5. Seasonality

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

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

6. Financial risk management

6.1 Financial risk factors

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

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

a) Market risk

(i) *Foreign exchange risk*

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

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

(ii) *Price risk*

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

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

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

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

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

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

b) Credit risk

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

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, keeping funds available through sufficient committed credit facilities and having the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the parent company's Treasury Department aims to maintain flexibility in funding by keeping credit lines available.

6.2 Fair value estimation

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

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

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

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

7. Intangible assets

7.1 Goodwill

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

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

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

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

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

On June 1st, 2011 is performed takeover. The percentage is 51% stake in net equity with voting rights.

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

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

The goodwill changes in 2012 compared to 2011 takeover are as follows:

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

Euro	12/31/2011
Cost	989,158
Net equity at takeover date	292,984
Minority interests	143,562
Goodwill	839,736
Goodwill from Cake	27,192
Total	**866,929**

Exchange differences: The Group functional currency is euro. The dependent subgroup of the parent company makes transactions in pound sterling. The addition of the financial position of Cake subgroup to the parent company the balances have been translated to the exchange rate of year end 2012. As provided rule, goodwill of consolidation is considered as an element of the acquired company and it must be translated at the exchange rate at the end of the year. The difference recorded amounts to EUR 57,570.

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

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

Zinkia Group considers each company as a cash generating unit. Although Zinkia has identified different assets as industrial property and development projects due to its small size is considered the total of the company as a cash generating unit. Development costs are allocated in Zinkia as a cash generating unit and the goodwill is allocated in Cake as a cash generating unit too. The asset impairment test is made for individualized asset based on estimates of the asset fair value.

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

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

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

- Working in new territories that previously corresponded to ITV and reverted to Zinkia in 2011.
- Increase licensing revenues in new territories 50% annually from 2012 to 2015.
- Advertising development as a new unit business which help to business growth.

It has been used the past experience in other territories works in order to allocate value to each hypothesis.

Projection period is five years.

The discount rate applied is the weighted average interest rate which Zinkia get external long-term financing without real guarantees as it shows the market valuation of the risks associates with the assets operated by Zinkia. This discount rate is 6.39% at 12.31.2012.

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

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

It is not expected any change in the hypothesis could cause that Zinkia cash generating unit fair value is lower than book value. If in the coming years be maintained 2012 income level in the new territories operated by Zinkia the fair value would be higher than book value. The difference between assets book value and assets fair value ranges from 130% to 500%.

7.2. Other Intangible Assets

The details and changes in the items under the Intangible Assets caption other than goodwill were as follows during 2012 and 2011:

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

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

The additions in 2012 refer primarily to work done on fixed assets (Note 3.1.a).

The amount in the item *research and development* refer to parent company internal developments. As parent company's functional currency is Euro there is not exchange differences for the conversion of the financial statements to the submission currency.

In 2011, the Group reversed a recognised loss due to the impairment of its intangible fixed assets, specifically the *Shuriken School* project which is included under the heading of "Intellectual Property". The recognition of this reversal is based on the improved revenue forecasts associated with the project. This improved estimation is due to international expansion and collaboration with Cake Entertainment Ltd as content distributor which has included Shuriken School in its content catalogue.

Data sales projections of TV agents are higher that data have been included since the Group has decided to be cautious when these projections are published in market.

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

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

In the Pocoyo project recognition of residual value and useful life is based on the project revenues which exceeding five years also by offers made to the Group which make the asset exceeds its book value.

Significant intangible assets

The amounts in this item included costs of new audiovisual projects until the moment that these projects are completed and transferred to the item intellectual property. They are detailed below:

WIRELESS WEST DEVELOPMENT	245,785
SHURIKEN GAME DEVELOPMENT	304,638
MOLA NOGURU DEVELOPMENT	1,617,384
FISHTAIL DEVELOPMENT	487,309
POCOYO EYE CIRCUITS DEVELOPMENT	1,057,544
POCOYO IV DEVELOPMENT	1,175,322
POCOYO PLAYSET DEVELOPMENT	655,377
OTHER DEVELOPMENT	808,235

For these developments the Group has considered if it is possible an impairment of the book value over fair value. This is based on internal and external information sources. In relation to the external information sources, the Group has calculated the assets fair value applying a discount rate on their estimations as the weighted average rate of the different debts; this rate is 6.39% at the end of 2012. As there is not comparable market price because each production is different the Group has taken a value for their forecasts based on past experience and discussion with television companies. Therefore there are internal reports which support that economic performance of these assets will meet the expectations.

Fully-amortised intangible assets

At December, 31st 2012, the Group had fully depreciated assets valued at 3,771,366 still in use. These intangible assets correspond to software and audiovisual projects.

At December, 31st 2011, the Group had fully depreciated intangible assets valued at 2,674,705 still in use.

Assets subject to guarantees and ownership restrictions

At December, 31st 2012, no property, plant and equipment were subject to ownership restrictions or had been pledged to secure liabilities. The same was true at December, 31st 2011.

Grants received in relation to intangible assets

Along the year 2012, the Group has received capital grants for digital TV development that amounts to EUR 60,000 and interactive Playset project amounts to EUR 283,196. These grants are subject to compliance with the Ministry of Industry requirements. Therefore the Group does not include these amounts in equity until the requirements are complied and grants could be considered non-refundable. On the other hand, it has been received confirmation of the outstanding amount of the grant for Fishtail on line project amounts to EUR 46,469 (Note 13).

The Group received in 2011 capital grants for the acquisition of computer software that amounts to EUR 23,963.

8. Property, plant and equipment

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

Euro	Balance at 12/31/11	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Balance at 12/31/12
Cost						
Machinery	31,689	-	-	-	-	31,689
Other equipment	38,198	-	-	-	-	38,198
Furnishings	183,688		2,715	-	-	186,403
Data-processing equipment	151,164	-	35,670	-	-	186,834
Other PPE	28,444	-	-	-	-	28,444
Total	433,182	-	38,385	-	-	471,567
Accumulated Amortisation						
Machinery	(31,285)	-	(120)	-	-	(31,405)
Other equipment	(25,921)	-	(4,003)	-	-	(29,923)
Furnishings	(119,950)		(5,676)	-	-	(125,626)
Data-processing equipment	(109,283)	-	(43,820)	-	-	(153,103)
Other PPE	(10,246)	-	(2,838)	-	-	(13,084)
Total	(296,685)	-	(56,457)	-	-	(353,142)
Impairment	-	-	-	-	-	-
Total	136,497	-	(18,072)	-	-	118,425

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

Impairment losses

The Consolidated Financial Statements for 2012 do not include any fixed asset impairment losses. The same was true for the year before. (Note 3.5)

Fully-depreciated assets

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

At December, 31st 2011, the Group had fully depreciated tangible assets valued at 155,038 still in use.

Property, plant and equipment subject to guarantees

At 12.31.12, no property, plant and equipment were subject to ownership restrictions or had been pledged to secure liabilities. The same was true at December, 31st 2011.

Commitments to purchase tangible fixed assets

At December, 31st 2012 the Group had assumed no commitments to acquire tangible fixed assets. The same was true at December, 31st 2011.

Assets under operating leases

The income statement includes operating leases on the rental offices for the Group and computer rentals, all of which total EUR 439,955. At 12.31.12 the Company has not non-cancellable operating leases.

Grants received in relation to property, plant and equipment

In 2012 the Group has not received capital grants in relation to property, plant and equipment.

In 2011 the Group has received capital grants for the acquisition of data-processing equipment (Note 13) that amounts to EUR 26,868.

9. Financial assets

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

Euro	12/31/2012	12/31/2011
Non-current financial investments		
Equity instruments	28,183	32,270
Other financial assets	-	-
Total	**28,183**	**32,270**
Current financial investments		
Loans to Group's companies	445,244	440,325
Equity instruments	181	192
Bonds and securities	-	17,000
Other financial assets	150,278	193,574
Total	**595,703**	**651,090**

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

Current financial investments include loans granted to Jomaca 98, S.L., which controls 64.71% of the share capital of the parent company, Zinkia Entertainment, S.A. This transaction is explained in further detail in note 18 regarding third party balances and transactions.

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

At December 31st, 2012 the Group has a deposit of restricted availability related to the bonds issuance of the parent company. The amount is EUR 122,842.

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

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

10. Trade and other accounts receivable

The detail of this caption on the Consolidated Statement of financial position at December, 31st 2012 and December, 31st 2011 is as follows:

Euro	12/31/2012	12/31/2011
Trade receivables	8,197,808	3,428,488
Trade receivables, long term	3,979,292	411,644
Accounts receivables	-	203,894
Bad debt provision	(183,948)	(177,416)
Total	11,993,152	3,866,610

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

	2012	2011
Euro	2,906,115	2,478,138
Us dólar	8,080,210	994,101
Pound sterling	686,820	61,749
Australian dolar	69,302	1,299
Yuan	212,192	237,182
Other currencies	38,512	94,141
Total	11,993,152	3,866,610

The amounts included in the item non-current assets are all domestic less the amount of the long-term trade receivables which are detailed below by geographic areas in 2012 and 2011:

Market	2012	2011
Domestic	0%	44%
International	100%	56%
Total	100%	100%

The most relevant country in this Group is USA which an amount of EUR 3,716,982. In 2011 the most relevant country was China with an amount of EUR 90,682.

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

Furthermore, non-current trade receivables on the asset side include the customer balances with maturity dates more than 12 months. This valuation involves a decrease of this item and profit before tax amounts to EUR 330,216.

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

The Group does not maintain any guarantee as insurance.

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

A right of charge amounts to EUR 207,639 is guaranteeing a delay with the Treasury (Note 16). A right of charge amounts to EUR 75,792 is the guarantee of the performance by the Company of these obligations until the total amount and the present and future yields.

Classification of financial assets (Notes 9 and 10)

	Non current financial assets					
	Equity Instruments		Debt securities		Credits, derivatives, other	
	2012	2011	2012	2011	2012	2011
Available for sale assets	28,183	32,270	-	-	-	-
Loans and accounts receivables	-	-	-	-	3,979,292	411,644
Total non current	28,183	32,270	-	-	3,979,292	411,644
	Current financial assets					
	Equity Instruments		Debt securities		Credits, derivatives, other	
	2012	2011	2012	2011	2012	2011
Assets held for trading	181	192	-	-	-	-
Held to maturity investments	-	-	-	17,000	-	-
Loans and accounts receivables	-	-	-	-	8,609,042	3,676,649
Total current	181	192	-	17,000	8,609,042	3,676,649
Total	28,364	32,462	-	17,000	12,588,334	4,088,293

11. Cash and other cash equivalents

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

Euro	12/31/2012	12/31/2011
Cash	2,911,348	488,764
Cash equivale	1,931	826
Total	**2,913,279**	**489,590**

These reserves are freely available for distribution.

12. Equity

Share capital

At December, 31st 2012 the registered capital of the parent Company, Zinkia Entertainment, S.A. consisted of 24,456,768 ordinary bearer shares represented by book entries with a par value of EUR 0.10 each, fully subscribed and paid in.

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

At December, 31st 2012 the share capital was broken down as follows:

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

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

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

Euro	12/31/2012	12/31/2011
Non-current financial liabilities	6,827,306	4,867,597
Current financial liabilities	4,572,298	2,320,310
Cash and cash equivalents	(2,913,279)	(489,590)
Net Debt	**8,486,325**	**6,698,317**
Equity of the parent	10,358,128	8,887,997
Equity of the parent	**10,358,128**	**8,887,997**
Leverage	**81,93%**	**75,36%**

Share premium account

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

Legal reserve

The legal reserves are funded in compliance with Article 274 of the Spanish Companies Act, which stipulates that 10% of the profits for each year must be transferred to this reserve until it represents at least 20% of share capital.

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

The legal reserve at December, 31st 2012 and December 31st 2011 totalled EUR 237,262.

Other reserves

These include the reserves of the parent Company which stood at EUR 757,091 and EUR 914,261 at December, 31st 2012 and December 31st 2011 respectively, and those of the subsidiaries which totalled EUR 190,440 and EUR (19,144) on the same dates.

Treasury shares

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

The changes under the heading of "Treasury Stock" on the Consolidated Statement of financial position during 2012 are as follows:

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

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

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

The treasury stock in the Company's possession at December, 31st 2012, represented approximately 1.15% (2.37% at December, 31st 2011) of the share capital with a nominal value of EUR 28.150 (EUR 57,937 at December, 31st 2011) and an average acquisition price of EUR 1.09 per share (EUR 1.64/share at December, 31st 2011). The average sale price of the Company's treasury stock at December, 31st 2012 was EUR 1.75 per share (EUR 1.67 per share at December, 31st 2011).

Dividends

The Group did not pay any dividends in 2012 nor does it intend to do so. The same is true for 2011.

Minority interests

At December, 31st 2012 the minority shareholders of Cake Entertainment Ltd. controlled 49% of the company's share capital.

13. Deferred Income

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

The details are as follows:

Granting entity	Euro	Purpose	Grant date
Education, Audiovisual and Culture Agency	150,000	Pre-production of 3 audiovisual works	11/06/2007
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	08/03/2010
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	08/03/2010
Ministry of Culture	46,469	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	08/03/2010

Grants are recognized in the current year to be considered as non refundable. The decreases correspond to the charge to income and the tax effect, result of applying a tax rate of 25% (Note 16).

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

The detail of this caption at December, 31st 2012 and December, 31st 2011 is as follows:

Euro

	2012	2011
Starting balance	105,542	79,748
Increases	46,469	50,000
Allocation to profit	(12,554)	(15,609)
Other decreases	(8,479)	(8,598)
Ending balance	**130,978**	**105,542**

Current accruals

This amount arises in 2012 as a result of the agreement signed for development of content in educational *apps* concept. In accordance with the agreement in October was invoiced the amount for seven apps developed. Accordance with the accounting standards applied by the company incomes from this project will accrue at the delivery of materials. This item will decrease according to allocation of incomes

14. Financial liabilities

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

Euro	12/31/2012		12/31/2011	
	Current	Non-current	Current	Non-current
Debentures and bonds	2,027,004	-	29,840	1,771,536
Bank loans	1,379,203	759,295	1,327,481	543,593
Other payables to banks	494,991	-	548,486	-
Derivative	-	53	-	5,999
Participating loans	-	500,000	376,371	-
Other borrowings	671,100	5,567,958	38,131	2,546,469
Total	**4,572,298**	**6,827,306**	**2,320,310**	**4,867,597**

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

The conditions of the issue are as follows:

Number of securities	2.238
Unit par value	1,000
Issue price	100%
Annual interest rate payable annually	9.75%
Amortisation of securities	12/11/2013
Amortisation system	Par

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

Euro Maturity	31/12/2012	31/12/2011
2012	-	2,320,310
2013	4,572,298	2,331,109
2014	3,002,827	2,536,488
2015	255,448	-
2016	328,671	-
2017 and following	3,240,359	-
Total	**11,399,604**	**7,187,906**

At December, 31st 2012 there is not unused credit facility. At the end of 2011 the unused credit facility totalled EUR 190,949.

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

The average weighted rate of reference of the Group's financial liabilities at December, 31st 2012 was 6.39%. At the end of 2011, the rate was 7.41%. The detail is as follows:

Financing Sources	Rate
Bonds issue	9.75%
Private Loan	9.75%
Financial entities and other	4.00%
Average weighted rate	6.39%

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

	12/31/2012		12/31/2011	
Euro	Euro	%	Euro	%
Fixed rate	9,531,132	84%	5,538,850	77%
Variable rate	1,868,472	16%	1,649,056	23%
Total	**11,399,604**	**100%**	**7,187,906**	**100%**

The overdue balances of the Group with financial entities at December, 31st 2012 amount to EUR 70,300 and EUR 375,180. About the first one amount was regularized by the parent company in February, 2013. At preparation of these financial statements date, the second overdue balance has been regularized through a refinancing agreement with the bank so loans shown in financial liability are regularized.

The difference resulting from the bond issue rate by the effective interest method compared to the nominal interest rate amounts to euro 225,576.

15. Derivative financial instruments

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

The notional principal on outstanding interest rate swaps was EUR 200,000 at December, 31st 2012 and EUR 500,000 at December, 31st 2011.

At 12.31.12, fixed interest rate was 1.95%. The floating interest rate was 12M Euribor. Gains/ losses recognised in equity under "Reserves" for interest rate swaps at December, 31st will be transferred to the income statement on a consistent basis until the relevant bank loans are repaid.

16. Deferred taxes, income tax and other taxes

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

Euro	12/31/2011	Additions	Reductions	12/31/2012
Tax credits for tax-loss carryforwards	1,732,102	-	(338,743)	1,393,359
Other tax credits	2,857,555	174,845	-	3,032,400
Deferred tax assets	4,589,657	174,845	(338,743)	4,425,759
Temporary differences - amortisation	18,627	-	-	18,627
Reversal temporary differences - amortisation	(2,607)	(4,091)	-	(6,698)
Temporary differences-deferred income	35,180	8,479		43,659
Tax effect expense recognized in equity	-	18,000		18,000
Deferred tax liabilities	51,200	22,388	-	73,588

The recognition of deferred tax assets is detailed as follows;

- Outstanding tax loss carryforwards from previous years

DESCRIPTION	TO OFFSET	TERM
Tax loss carryforward FY 2011	704,683	2029/2030
Tax loss carryforward FY 2010	3,014,994	2028/2029
Tax loss carryforward FY 2009	1,853,761	2027/2028
TOTAL	5,573,438	

- Outstanding double tax deductions from previous years

YEAR	DESCRIPTION	OUTSTANDING DED.	DEADLINE
2012	International (art. 31 C.I.T.)	66,521	2019
2011	Intercompany (art. 30.1 and 3 C.I.T.)	1.14	2018
2011	International (art. 31 C.I.T.)	95,048	2021
2010	Intercompany (art. 30.1 and 3 C.I.T.)	1.50	2017
2010	International (art. 31 C.I.T.)	76,978	2020
2009	Intercompany (art. 30.1 and 3 C.I.T.)	1.61	2016
2009	International (art. 31 C.I.T.)	60,455	2019
2008	Intercompany (art. 30.1 and 3 C.I.T.)	2.11	2015
2008	International (art. 31 C.I.T.)	40,693	2018
2007	International (art. 31 C.I.T.)	32,672	2017
TOTAL		372,375	

- Outstanding investment deductions from previous years

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

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

In the current year the Group have capitalized outstanding deductions amounting to EUR 174,845. Of this amount EUR 101,695 are deductions for IT projects of this year, EUR 66,521 are double tax deductions and EUR 6,630 are investment deductions.

The Group considers recoverable tax credits in accordance with forecast figures submitted to the market and these financial statements which shown a positive evolution of business so tax credits begin to recover.

As detailed above, the Group considers tax credits for tax-loss carryforwards based on estimations for coming years and taking into account tax credits deadlines set by tax regulations as a recovery term not more 10 years. Although the Group has losses from several years, these losses are due to the sort of business and the company sector. Investments in the series production, mainly Pocoyo, involve a period of several years in which the early years have higher costs. In the current year, as the above financial statements showed, begins the return on investment due to international brand working. Therefore this situation is due to the activity of the company but it is unusual and it will not repeat over time.
The Group has not tax credit for which have not been recognized deferred tax assets.

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

Euro	12/31/2012	12/31/2011
Consolidated profit before taxes	1,544,494	(246,264)
Non-deductible expenses and non-computable income	113,458	43,771
Adjusted accounting profit	1,657,952	(202,493)
Corporate income tax	125,482	90,362
Withholding taxes from income earned abroad	152,421	95,100
Deferred tax	(160,936)	(657,724)
Application of tax credit to offset tax loss carryforwards	338,743	-
Income tax expense	455,710	(472,262)

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

Euro	31/12/2012	31/12/2011
Consolidated profit before taxes	1,544,494	(246,264)
Effective rate	38%	(5%)
Accrual expense C.I.T.	587,404	12,246
Non-deductible expenses effective rate effect	43,151	(28)
Reductions pending to apply	(174,845)	(484,480)
C.I.T.	455,710	(472,262)

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

The details of the debit and credit tax balances with tax authorities at December, 31st 2012 are as follows:

Euro	12/31/2012	12/31/2011
Deferred tax assets	-	-
Tax credtis for tax-loss carryforwards	4,425,759	4,589,657
Corporate income tax assets	2,774	6,363
Other tax receivable	110,314	54,802
Tax receivables	4,538,847	4,650,822
Deferred tax liabilities	73,588	51,200
Corporate income tax payable	193,625	82,149
Other tax payable	473,469	648,634
Tax payables	740,682	781,983

The Group has granted two deferments, one of them from the Tax Authorities for the withholdings and the other from the Social Security related to social security contributions. The amounts due over one year showed in non-current liabilities amounts to EUR 46,732 and EUR 320,734.

17. Trade and other payables

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

Euro	12/31/2012	12/31/2011
Suppliers of services provided	5,302,066	2,321,829
Other	437,513	129,106
Total	**5,739,579**	**2,450,935**

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

	2012	*Euro* 2011
Euro	3,204,974	1,842,630
US dolar	2,063,400	568,501
Pound sterling	461,224	39,804
Argentine peso	-	-
Brazilian real	-	-
Yuan	9,981	-
Total	5,739,579	2,450,935

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

18. Balances and transactions with related parties

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

The balances maintained with related parties at December, 31st 2012 and 2011 are as follows:

	12/31/2012		12/31/2011	
Euro	Receivables	Payables	Receivables	Payables
Trade payables				
Jomaca 98, S.L.	-	20,184	-	-
Yeguada Floridablanca, S.A.	-	50,000	-	-
Loans, long term				
Other related parties	-	20,839	-	-
Loans short term				
Jomaca 98, S.L.	-	88,111	-	-
Short-term loans				
Jomaca 98, S.L.	445,244	-	440,325	
HLT, Bv	-	-	123,437	
Total	**445,244**	**179,134**	**563,762**	**-**

The terms and conditions for the recovery of outstanding amounts with related parties are similar to the market being the average collection period about 45 or 60 days and usually by bank transfer. In relation to the credits granted to related parties, maturity and interest payment is semi-annual although the term may be renewed by agreement between the parties.

At the end of the year 2011 the balance amounts to EUR 123,437 corresponds to HLT, Bv which is out of the scope of consolidation there may be confusion with HLT Productions, Bv which is inside the scope of consolidation (Note 1). Although the name is similar there are two different companies. The amounts of transactions between related parties have been written off to make consolidated financial statements.

The related-party transactions during 2012 were as follows:

	31/12/2012		31/12/2011	
Euro	Expenses	Incomes	Expenses	Incomes
Jomaca 98, S.L.	120,000	32,026	341,661	9,450
Yeguada Floridablanca, S.A.	50,000	-	-	-
HLT, Bv	150,480	-	-	-
Other related parties	5,768	-	-	-
Total	**326,248**	**32,026**	**341,661**	**9,450**

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

The related parties incomes and expenses are detailed as follows:

Expenses of Jomaca 98, S.L., Yeguada Floridablanca, S.A. y HLT, Bv correspond to management services.

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

Incomes of Jomaca 98, S.L. correspond to financial incomes of the short-term loans granted to this company.

zinkia

19. Income and expense

Net sales

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

Euro	12/31/2012	12/31/2011
Content	7,469,453	4,405,191
Licensing	5,785,624	2,788,496
Advertising	998,985	595,102
Total	14,254,063	7,788,789

The breakdown by geographic area is as follows:

Market	2012	2011
Domestic	4%	22%
Abroad	96%	78%
Total	100%	100%

The most relevant country in the item of revenues is USA which totalling EUR 5,656,996 focused on three clients during 2012. In 2011 there was not significant country providing turnover.

Other operating revenues

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

Euro	2012	2011
Services rendered to staff	1,470	1,173
Other services	-	3,800,000
Own work capitalized	1,335,634	1,616,154
Release to Income Statement-deferred income	12,554	15,609
Totales	1,349,658	5,432,936

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

In 2011 the amount in "other services" corresponds to the amount invoiced for the final settlement following the completion of the contract with the ITV Global Entertainment.

Raw materials and consumables

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

Staff expenses

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

Euro	12/31/2012	12/31/2011
Wages and salaries	2,847,053	2,782,760
Compensations	180,025	95,862
Employer social security costs	651,753	692,233
Other expenses	72,450	154,073
Total	3,751,281	3,724,928

The breakdown by professional category and gender is as follows:

CATEGORY	2012		2011	
	Men	Women	Men	Women
5-YR DEGREE HOLDER	16	16	21	18
3-YR DEGREE HOLDER	4	1	4	1
SR.MANAGER	4	3	4	3
MANAGER 1	-	-	-	1
MANAGER 2	2	0	1	-
OFFICIAL 1	12	3	16	5
OFFICIAL 2	2	0	3	-
ASSISTANT	0	2	-	2
PROGRAMMER	1	-	2	-
OPERATOR	3	0	4	1
OFFICIAL 1	0	0	1	1
Total	44	25	56	32

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

External services

The composition of this caption is as follows:

Euro	12/31/2012	12/31/2011
Operating leases	439,955	358,056
Independent professional services	5,334,154	4,044,338
Other expenses	1,204,877	1,688,655
Impairment losses on commercial transactions	79,031	1,106,877
Total	7,058,018	7,197,927

Depreciation and provisions

The composition of this caption is as follows:

Euro	12/31/2012	12/31/2011
Intangible asset depreciation charge	1,560,887	1,737,016
Property, plant and equipment depreciation charge	56,457	47,434
Total	1,617,344	1,784,450

Financial income and expense

Euro	2012	2011
Finance income due to credits to related parties	32,026	9,450
Other	5,510	15,361
Finance Income	**37,536**	**24,811**
Finance and similar costs	(974,466)	(801,473)
Exchange profit/losses	(155,435)	6,923
Impairment financial assets	(152,601)	
Finance Cost	**(1,282,502)**	**(794,550)**
Net financial expense	**(1,244,966)**	**(769,739)**

20. Based payment transactions in equity instruments

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

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

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

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

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

- The delivery of shares is conditional on at the time of execution of the plan, the value of the stock has appreciated by at least 30% of the value of share price as at June, 30th, 2011. In addition, the parent Company shall have obtained in the previous year distributable profits, fee only 30% thereof and subject to the availability of sufficient liquidity at that time, responding to the acquisition of shares.

-The delivery of shares corresponding to each beneficiary in terms of compliance with the established indicators can be made, in the opinion of the Board, by delivery of shares and delivery of the monetary equivalent of the combined value of trading for same at the time of execution.

At December 31st 2012, there were no conditions mentioned above to implement the plan, so no need to recognize both the good or services received as an increase in equity.

b) Other share based payment

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

21. Contingencies and guarantees

At December, 31st 2012, has not recorded any provision for claimshad no contingent assets or liabilities. This is due to the advice from our legal department as well as our lawyers because all of them estimate that risk taken by the Group is low. At the year-end one of the claims has been won by the company. To date of preparation of these financial statements is not yet possible to estimate the economic impact of these events.

The parent company has three guarantees two of which for Avalmadrid SGR in the amount of EUR 200,000 and EUR 2,000,000 to guarantee two loans in the same amounts. The third guarantee whit other entity amounts to EUR 748,198, whose funds for the pledge of this, have been deposited by a private entity for the Group. This guarantee has been required by Ministry of Industry to obtain Avanza aid.

22. Director and senior management compensation

Remuneration of the members of the Board of Directors

In 2012, the members of the Board of Directors received no remuneration for sitting on the Board.

No contributions have been made to pension plans or funds for former or current members of the parent Company's Board of Directors. No such obligations were incurred during the year.

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

Compensation and loans to senior management personnel

In 2012, the remuneration received by members of the Board of Directors to carry out tasks of senior management in the Group amounted to EUR 812,685 , the compensation received by other senior management personnel different than the members of the Board of Directors of the Group has earned gross wages totaling EUR 186,738
In 2011 member of the Board of Directors received a total of EUR 661,055 and the senior management staff received a total of EUR 488,721 in remuneration. Number of senior management staff has decreased during 2012.

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

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

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

23. Environmental information

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

In fiscal year 2012, there were no major environmental expenditures.

24. Earnings per share

Basic earnings per share

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

Euro	12/31/2012	12/31/2011
Profit Attributable to the equity holders of the parent	1,019,289	54,447
Average number of shares during the year	24,445,677	24,445,677
Average number of treasury shares held	(430,435)	(392,841)
Average number of shares outstanding	24,015,242	24,052,837
Basic earning per share (euros)	0.0410	0.0023

In January 2013, there have been a transaction in shares so the calculation of earnings per share is as follows (Note 26).

Euro	12/31/2012	12/31/2011
Profit Attributable to the equity holders of the parent	1,019,289	54,447
Average number of shares during the year	24,445,677	24,445,677
Average number of treasury shares held	(604,212)	(103,157)
Average number of shares outstanding	23,841,465	24,342,520
Basic earning per share (euros)	0.0428	0.0022

Diluted earnings per share

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

25. Auditors' fees

The professional fees for auditing individual and consolidated financial statements in 2012 totalled EUR 8,144 and EUR 4,000 for other audit services (2012 semi-annual). In 2011 the professional fees charged by Garrido Auditores, S.L. was EUR 8,000.

The parent Company also paid fees in the amount of EUR 50,558 to Garrido Abogados y Asesores Fiscales, S.L. during the same period. (EUR 32,283 in 2011)

26. Events after the Financial Statement date

On January 9th 2013, the parent Company has proceeded to the purchase of 347,554 own shares at EUR 1.16 per share, having an effect on net equity of Euro 404,187 under the epigraph "Treasury Shares".

The sale of such shares does not change much the calculation of earnings per share which is 0.0424 instead of 0.0428 (Note 24).

27. Other disclosures

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

Pursuant to the terms of this law, at the end of the year the parent Company had a balance payable to suppliers in the amount of EUR 1,223,414 which had exceeded the legally-established payment deadline. During year 2012, the parent Company has made payments to suppliers amounting to EUR 1,970,000, which 42% exceeded legal limit. The weighted average term of payment amounts to 170 days.

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

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

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

Signed Consolidated Financial Statements

These Consolidated Annual Accounts are signed by the members of the Board of Directors, at the time of the Board of Directors meeting held in Madrid on April, 4^{th} 2013.

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

Business Performance and Company Situation

In the year 2012 the Group has increased turnover by 83% amounting EUR 14,254,063 compared to EUR 7,788,789 last year. The large increase is due to the international expansion of the Group with the main asset Pocoyo brand. Zinkia is currently in a process of implementation of the global strategies that enable it to achieve the goals outlined in its business plans and undertaking the process of the geographical diversification of sales. Also the year 2012 is the first time in which it is consolidated 100% of the figures of Cake Entertainment, Ltd., as the company was acquired mid-year 2011 so last year only half of this company results were incorporated. Cake has contributed to the consolidated turnover amount of EUR 6,000,000.

Of the total turnover only 4% comes from the Spanish market compared to 22% last year.

It should be note that each company business line has increased incomes over the last year. About to relative weight of each company business line in the total sales amount, licensing & merchandising provides 41% and content sales 52% as a consequence of the figures provided by Cake Entertainment, Ltd by selling its catalog series to international television companies. The Group expects that it will improve earnings in the advertising area for the coming years. Assuming that, this item is 7% of sales in the current year, Zinkia hopes to increase the total amount and the percentage of sales.

During the year, the parent company has made a cost reduction process mainly the external services costs. However in the Group this reduction is offset by the increase in other subsidiaries, mainly with Cake Entertainment, Ltd. As mentioned above, 2012 is the first year in which is incorporated 100% of the Cake results, thereby increasing operating costs. Even so, the item other operating expenses have decreased by 2% compared to 2011.

As result of all these factors, there has been a very remarkable improvement in EBIT, from a EBIT of EUR 107,586 in 2011 to a EBIT of EUR 2,900,288 in 2012. It means an increase about 2,596%.

During the previous year, the situation in financial markets continued to be just as restrictive, in terms of access to credit for companies, as has become the trend of recent years, so the Group continues to seek appropriate funding ways can be used for implementation of investment projects. In 2012 the parent company has granted Project Avanza 2012 aid to finance one of its project amounts to EUR 2,421,347.

The Statement of financial position shows a negative Working Capital of EUR 527,268 at December, 31st 2012, mainly due to investments and the maturity of the debt of the Group. In this sense Zinkia is working on finding appropriate funding sources, both with potential new funders, as with financial institutions with they are already working. Likewise, also are examining all possible options to generate additional liquidity, in every way, so as to generate the necessary financial resources to meet all commitments of the Group and to undertaken investment projects of the Business Plan. At the date of these financial statements the Group has regularized all overdue balances with financial entities.

The Group's financial position at December 31, 2012 with a consolidated financial net debt of EUR 8,486,325 and net equity of EUR 10,358,128 shown a leverage of 82%.

Transactions with related parties

The total expenses by transactions with related parties amounts to EUR 326,248 and the incomes amounts to EUR 32,026.

Events after the date of these Financial Statements

Between the date at these financial statements were made, and the date of preparation thereof, no events have occurred that are worthy of mention or have a significant influence, unless the purchase of 347,554 shares of treasury stock that the parent company held.

Outlook for the Company

For the years 2013 and the following ones, is still expected a substantial increase in the turnover of the Group based on Pocoyo entry into new markets, increase in business areas of audiovisual content selling and advertising, develop new audiovisual content and brands and sales of animation series from its subsidiary Cake Entertainment, Ltd.

Recovery of the distribution rights of Pocoyo worldwide by Zinkia, also acquisition society Cake Entertainment Ltd, have allowed turnover increase in this year and it is expected to continue this trend over the coming years.

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

Research & Development.

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

Financial Risk Hedging

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

Acquisition of treasury shares

Under the article 262 of the Corporate Enterprises Act and considering the content of Title IV, Chapter VI of that text, the Group has acquired during the year, 36,122 shares of the parent company, according with the liquidity agreement we signed with Banesto Bolsa, SVB, S.A. which holds the set of agent liquidity Zinkia after our joining the Alternative Investment Market (MAB). Also during the year 2012, alienate 333,986 values of the previously acquired, having obtained a negative result overall in these operations of euro 157,170 registered as a deduction from equity in the Balance. At December 31st 2012 are held by the parent company 281,503 shares with a nominal value of euro 28,150, representing 1.15% of share capital.

DECLARATION OF RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The members of the Board of Directors of ZINKIA ENTERTAINMENT, S.A. listed below declare that, to the best of their knowledge, the financial information for the Zinkia Entertainment Group which includes the Consolidated Financial Statements of ZINKIA ENTERTAINMENT, S.A. and subsidiaries as at the end of 2011, formulated by the Board of Directors at the meeting held on April, 4th 2013 and prepared according to the applicable accounting principles, offer a true image of the equity, financial situation and results of the ZINKIA ENTERTAINMENT Group and that the consolidated Directors' Report includes an accurate analysis of the Group's business results and position, along with a description of the principal risks and uncertainties faced by the Group.

Madrid, April, 4th 2013

Mr. José María Castillejo Oriol

Mr. Alejandro Ballestero de Diego

Mr. Alberto Delgado Gavela

Mr. Juan José Güemes Barrios

Angel Martín Ortiz Abogados, S.L.
Represented by Angel Martín-Ortiz Bueno

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

DECLARATION OR RESPONSIBILITY FOR FINANCIAL REPORTING

The members of the Board of Directors of ZINKIA ENTERTAINMENT, S.A. listed below declare that, to the best of their knowledge, the financial information for the Company, which includes the Individual and Consolidated Financial Statements of ZINKIA ENTERTAINMENT, S.A. and subsidiaries as at the end of the year 2011, formulated by the Board of Directors at the meeting held on March, 22nd 2012 and prepared according to the applicable accounting principles, offer a true image of the equity, financial situation and results of ZINKIA ENTERTAINMENT, S.A. and subsidiaries and that the Directors' Report includes an accurate analysis of the Company's business results and position, along with a description of the principal risks and uncertainties faced by the Company and subsidiaries.

Madrid, March 22nd 2012

Mr. José María Castillejo Oriol

Mr. Alejandro Ballestero de Diego

Mr. Alberto Delgado Gavela

Mr. Juan José Güemes Barrios

Mr. Miguel Valladares García

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

APPENDIX II

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

IDENTIFICATION OF ISSUER

FISCAL YEAR 2012

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
MIGUEL FERNANDO VALLADARES GARCÍA	11.20
JOMACA 98, S.L.	64.710
ALBERTO DELGADO GAVELA	3.58

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

Shareholder or partner	Type of relationship	Brief description

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

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

B – COMPANY MANAGEMENT STRUCTURE

B.1. Board of Directors

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

Maximum number of directors	10
Minimum number of directors	3

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

MEMBERS OF THE BOARD OF DIRECTORS/GOVERNING BODY

Name of director of member of governing body	Representative	Date of last appointment	Title
JOSÉ MARÍA CASTILLEJO ORIOL		26.05.2009	EXECUTIVE DIRECTOR
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
ANGEL-MARTIN ORTIZ ABOGADOS, S.L.	ANGEL-MARTIN ORTIZ BUENO	19.12.2012	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
JOSÉ MARÍA CASTILLEJO ORIOL	CAKE ENTERTAINMENT, LTD	DIRECTOR

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

Salary item	Individual (€'000)	Group (€'000)
Fixed remuneration	170	0
Variable remuneration	0	0
Per diems	0	0
Other	0	0
Total:	170	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
JULIO COVACHO LOPEZ	MANAGING DIRECTOR AND FINANCE DIRECTOR
IGNACIO PASTOR GILI	MANAGING DIRECTOR
MARIA KRISTINA DOOLAN	BRAND AND BUSINESS DEVELOPMENT DIRECTOR
LOREA GARCIA JAUREGUI	GENERAL COUNSEL AND LEGAL & HR DIRECTOR
MARIA ITURRIAGAGOITIA BUENO	HR DIRECTOR
Total senior management remuneration (in thousands of euros)	496

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, if the company's individual and consolidated financial statements for preparation by the Board are previously certified:

No

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 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.	SECRETARY OF THE COMITTEE
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

According to article 12 of the Board of Directors Rules of ZINKIA ENTERTAINMENT, S.A., the Board shall appoint one or more CEO, who could be vested with all or part , forever or temporarily, of the powers vested in the Board of Directors according to the Articles of Association and the law.

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

Number of meetings	3

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

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C. RELATED-PARTY TRANSACTIONS

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

Name or company name of significant shareholder	Name or company name of the Group company or enterprise	Type of relationship	Type of transaction	Amount (in thousands of euros)
JOMACA 98, S.L.	ZINKIA ENTERTAINMENT, S.A.	Contractual	LOAN GRANTED BY ZINKIA ENTERTAINMENT, S.A. TO JOMACA 98, S.L.	27

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

Name or company name of managers or directors	Name or company name of the Group company or enterprise	Type of relationship	Type of transaction	Amount (in thousands of euros)
JOMACA 98, S.L.	ZINKIA ENTERTAINMENT, S.A.	Contractual	LOAN GRANTED BY ZINKIA ENTERTAINMENT, S.A. TO JOMACA 98, S.L.	27

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.

2. In addition, the Director must inform of any direct or indirect participation in any other entity or company, both by him/her or by any of the persons included in article 231 of the Revised Text of the Capital Companies Act, when the company has the same, similar, analogue or complementary activity as the Company's activity, and they must inform as well of any title or responsibilities those persons may have within.

3. The conflicts of interest situations in the terms of the above paragraphs shall be included in the Notes to the Financial Statements.

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 2012 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.c 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. For capital increases or decreases 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, can only be validly passed with the favourable vote of two-thirds of the capital present or represented at the General Meeting when on second call there are shareholders which represent at least the 25 % of the capital subscribed with voting rights, but cannot get the 50%.

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

Without prejudice to the provisions of the Capital Companies Act regarding the universal general meeting and the judicial call, the General Meetings of Shareholders shall be called by the governing body.

The board will convene the Annual General Meeting for the meeting necessarily within the first six months of each year. The Board General Meeting will be valid even if called or held outside of term.

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 sixty days of the notarised request being received by the governing body. The governing body must also include the matter or matters stated in the request on the meeting agenda.

Article 7. Announcement of the General Meeting

The call, both of ordinary and extraordinary General Meetings Shareholders shall be announced in the Business Register Paper and the society web page, at least one month in advance to the date fixed for the convened General Meeting, except in case the law settles a higher term. The governing body will analyse the option of releasing the Agenda of the General Meeting Shareholders in more media.

The General Meeting shall be convened by the governing body including the Society's name, if the meeting is Ordinary or Extraordinary, the place, date and hour to attend in first call, the status of the person that signs the call, and the Agenda, in which all the matters to discuss shall be included. The announcement shall include, just in case, the date and hour of the second call meeting. Between first and second call there should be, at least, 24 hours of difference and the explanation that the first call is more probable than the second . In the announcement there should appear all the matters in a clearly manner.

The announcement shall include the reference to the shareholders right to be represented by a third person, even not a shareholder, the requirements and procedures for exercising this right, and the right of information that assist shareholders and how to exercise it.

The board shall include in the notice mention of the specific ways the shareholders may use to exercise or delegate votes, as well as the instructions to do so. The announcement shal also include the timing, form and modes of exercise of the rights of the shareholders who attend the Meeting by electronic or telematic means, if foreseen this possibility.

Shareholders representing at least five percent of the share capital may request a supplement to the convening of a Shareholders General Meeting including one or more items on the agenda. The exercise of this right shall be made by notification which shall be received at the registered office within five days of the publication of the notice.

The complement of the notice shall be published at least fifteen days in advance to the date set for the meeting of the General Meeting, at least, in the same media, including the Official Gazette of Mercantile where the original call or notice has been published.

The lack of publication of the supplement to the notice within the statutory shall be cause for revocation of the General Meeting.

The Company will send the announcement of the notice of meeting, including, where appropriate, any supplement to the call, to the "Mercado Alternativo Bursatil" and any other authority if appropriate, all in accordance with the regulations applicable in each case. The text of the announcement, including its accessories if any, will be published on the page Society web.

The Board of Directors may require the presence of a Notary Public to attend the General Shareholders' Meeting and the minutes of the meeting, who should it when the circumstances are those provided under the applicable legislation.

If the General Meeting duly called, is not held in the first call, and it is not contemplated in the notice the date of the second, the General Meeting should, be announced with the same agenda and the same requirements publication as the first, within fifteen days from the date of the General Meeting not held and at least ten days prior to the date of the meeting.

Article 9. Right to information prior to the General Meeting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Article 10. Attendance rights.

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

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

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

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

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

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

Article 12. Representation

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

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

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

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

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

b. they are issued using remote electronic modes of communication, enclosing an electronic copy of the attendance card and delegation which duly guarantees the proxy being granted and the identity of the issuing shareholder.

Proxies issued in this way shall be permitted when the electronic document granting the proxy contains the legally-recognised electronic signature of the principal or another other form of identification previously authorised by the Board and deemed to adequately guarantee the authenticity and identity of the shareholder granting the proxy.

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

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

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

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

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

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

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

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

Article 22. Right to information during the General Meeting

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

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

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

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

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

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

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

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

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

Article 24. Distance voting.

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

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

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

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

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

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

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

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

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

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

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

Article 25. Voting on proposed resolutions

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

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

Each agenda item will be voted on separately.

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

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

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

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

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

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

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

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

The resolutions passed by the Ordinary General Meeting held on 22 June 2012 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 2011 fiscal year.

Passed with 100% of votes.

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

Passed with 100% of votes.

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

Passed with 100% of the votes.

Four. Amendment of articles 5, 11, 16, 20 and 26 of the Company's Articles of Association for its adaptations to the last legal modifications.

Passed with 100% of the votes.

Five. Modification and adaptation of articles 6 and 7 of the Rules of the General Meeting of Shareholders.

Passed with 100% of the votes.

Six. Approval of the Society web page in accordance with article 11 bis of Capital Societies Act: www.zinkia.com

Passed with 100 of the votes.

Seven. Ratification and appointment of new Directors.

Passed with 100% of the votes.

Eight. 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 2012 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, during 2012 there have been between 6 and 7 Directors, which is within the range recommended by the Unified Code (between 5 and 15 members) and which allows for effective and participative operation. The Articles of Association of ZINKIA ENTERTAINMENT, S.A. establishes a maximum of 10 members, which is also within the range recommended by the Unified Code.

- Composition of the Board of Directors: As of the date of this report, independent and proprietary external directors constitute an ample majority of board members, with five, compared to the one only 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. has one independent director on the Board of Directors.

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

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

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

G. OTHER INFORMATION OF INTEREST

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

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

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

To supplement the information provided in point B.1.2. and to supplement the information included in this document (are up to 31/12/2012) we do inform of the following:

As we already informed in the last Governance Report, on February 29th 2012, the Board of Directors of ZINKIA ENTERTAINMENT, S.A. agreed to accept the resignation of Mr. Mariano Martín Mampaso as a director for personal reasons, and the Board, as set out in the article 244 of the Capital Companies Act, designated by cooptation, and ratified for the statutory term by the General Meeting, as member of the Board of Directors the company Axon Capital e Inversiones SGECR S.A.

On 15 November 2012, Axon Capital e Inversiones SGECR S.A. stepped down as a member of the Board of Director, leaving a vacancy on the Board of Directors.

On 18 December 2012Mr. Miguel Valladares stepped down as a member of the Board of Director. The Board as set out in the article 244 of the Capital Companies Act, designated by cooptation, conditioned to the next General Meeting g, as member of the Board of Directors the company Angel-Martin Ortiz Abogados, S.L, duly represented by D. Angel Martín Ortiz Bueno who accepted the appointment.

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

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

Regarding information provided in point B.1.5, we would like to clarify that in order to give more transparency, the data of all the Company Executives that reported to the CEO during any time of 2012 have been included. In any case, after the appointment of a General Manager, the persons that actually report directly to the CEO as the first management level of the company have clearly decreased.

This Annual Corporate Governance Report was approved by the Board of Directors or governing body at the session held on 04-04-2013.

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

GARRIDO AUDITORES

ZINKIA ENTERTAINMENT, S.A.

Audit Report, Financial Statements
and Directors' Report
at December 31, 2012

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

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

AUDIT REPORT ON THE FINANCIAL STATEMENTS

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

1. We have audited the financial statements of Zinkia Entertainment, S.A., comprising the balance sheet at December 31, 2012, the income statement, the statement of changes in equity, the cash flow statement and related notes to the financial statements for the year then ended. The Directors are responsible for the preparation of Company's financial statements in accordance with the regulatory financial reporting framework applicable to the company (which is identified in Note 2 of the accompanying notes to the financial statements) and, in particular, with the accounting principles and rules contained therein. Our responsibility is to express an opinion on the financial statements taken as a whole, based on our audit work conducted in accordance with the audit regulations in force in Spain, which requires the examination, by means of selective tests, of the evidence supporting the financial statements and evaluation of whether their presentation, the accounting principles and polices applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. In our opinion, the accompanying financial statements for 2012 present fairly, in all material respects, the equity and financial position of Zinkia Entertainment, S.A. at December 31, 2012 and the results of its operations and cash flows for the year then ended, in conformity with the applicable regulatory financial reporting framework and, in particular, with the accounting principles and rules contained therein.

3. The accompanying directors' report for 2012 contains the explanations that the company's directors consider appropriate regarding the company's situation, the evolution of its business and other matters, but it is not an integral part of the financial statements. We have checked that the accounting information contained in the directors' report is consistent with that contained in the financial statements for 2012. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the company's accounting records.

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

David Jiménez Matías
April 23, 2013

ZINKIA ENTERTAINMENT, S.A.

FINANCIAL STATEMENTS AND AUDITOR'S REPORT 2012

Translation of Financial Statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of discrepancy the Spanish language version prevails.

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

ZINKIA ENTERTAINMENT, S.A.
BALANCE SHEET AT DECEMBER 31st 2012 (In EUR)

ASSETS	Note	2012	2011
A) NON-CURRENT ASSETS		**18,345,852**	**15,119,673**
I. Intangible fixed assets	**5**	**8,832,662**	**8,982,959**
3. Patents, licenses, trademarks and similar		2,639,443	4,117,529
5. Computer software		50,837	80,374
6. Other intangible assets			
Research		6,104,609	4,768,975
Advance for intangible assets		37,773	16,082
II. Property, plant and equipment	**6**	**76,258**	**100,176**
2. Plant and other PPE		76,258	100,176
IV. Non-current investments in group companies and associates	**7 y 8**	**1,003,697**	**1,002,966**
1. Equity instruments		1,003,697	1,002,966
V. Non-current financial investments	**7 y 11**	**28,183**	**32,270**
1. Equity instruments		28,183	32,270
VI. Tax credits	**21**	**4,425,759**	**4,589,657**
VII. Non-current trade receivables	**7 y 11**	**3,979,292**	**411,644**
1. From clients		3,979,292	411,644
B) CURRENT ASSETS		**7,133,764**	**2,288,773**
III. Trade and other accounts receivable	**7 y 11**	**3,977,441**	**1,580,505**
1. From clients		3,415,252	1,538,096
2. Clients, group companies and associates		461,236	-
3. Sundry receivables			109
5. Current tax assets		731	2,852
6. Other tax credits		100,223	39,449
IV. Current investments in group companies and associates	**7, 11 y 26**	**445,660**	**440,674**
2. Loans to companies		445,244	440,325
5. Other financial assets		416	349
V. Current financial investments	**7 y 11**	**150,459**	**210,765**
1. Equity instruments		181	192
3. Debt securities		-	17,000
5. Other financial assets		150,278	193,574
VI. Prepaid expenses		**27,655**	**31,010**
VII. Cash and cash equivalents	**14**	**2,532,549**	**25,819**
1. Cash		2,530,618	24,993
2. Cash equivalents		1,931	826
TOTAL ASSETS		**25,479,616**	**17,408,446**

ZINKIA ENTERTAINMENT, S.A.
BALANCE SHEET AT DECEMBER 31st 2012 (In EUR)

EQUITY AND LIABILITIES	Note	2012	2011
A) NET EQUITY		**10,145,677**	**8,796,564**
A-1) SHAREHOLDER'S EQUITY		**10,018,702**	**8,697,021**
I. Capital	**15**	**2,445,677**	**2,445,677**
1. Registered capital		2,445,677	2,445,677
II. Share premium	**15**	**9,570,913**	**9,570,913**
III. Reserves	**16**	**994,353**	**1,151,523**
1. Legal and statutory		237,262	237,262
2. Other reserves		757,091	914,261
IV. Treasury stock	**17**	**(403,841)**	**(950,560)**
V. Profit/(loss) carryforwards		**(3,520,531)**	**(3,389,612)**
2. Tax loss carryforwards		(3,520,531)	(3,389,612)
VII. Profit/(loss) for the year	**18**	**932,131**	**(130,919)**
A-2) ADJUSTMENTS DUE TO VALUE CHANGES	**12**	**(4,003)**	**(5,999)**
II. Hedgings transactions		**(4,003)**	**(5,999)**
A-3) GRANTS, DONATIONS AND BEQUESTS RECEIVED	**20**	**130,978**	**105,542**
B) NON-CURRENT LIABILITIES		**6,944,295**	**4,918,797**
II. Non-current payables	**7 y 13**	**6,827,306**	**4,867,597**
1. Debentures and other marketable securities		-	1,771,536
2. Bank borrowings		759,295	543,593
4. Derivatives		53	5,999
5. Other financial liabilities		6,067,958	2,546,469
III. Non-current payables with subsidiaries and associates companies		**61,401**	**-**
IV. Deferred tax liabilities	**21**	**55,588**	**51,200**
C) CURRENT LIABILITIES		**8,389,645**	**3,693,085**
III. Current payables	**7 y 13**	**4,147,761**	**2,141,651**
1. Debentures and other marketable securities		2,027,004	29,840
2. Bank borrowings		1,405,032	1,651,174
5. Other financial liabilities		715,725	460,637
V. Trade an other payables	**7 y 13**	**2,993,628**	**1,551,434**
3. Sundry payables		2,204,575	907,775
4. Wages and salaries pending of payment		368,248	32,996
6. Other tax payables		420,805	580,296
7. Advance from clients		-	30,367
VI. Current accruals and deferred income		**1,248,256**	**-**
TOTAL LIABILITIES AND EQUITY		**25,479,616**	**17,408,446**

Notes 1-32 are an integral part of the Balance Sheet at December 31st, 2012

ZINKIA ENTERTAINMENT, S.A.

INCOME STATEMENT FOR THE YEAR ENDED AT DECEMBER 31st 2012 (In EUR)

	Note	2012	2011
1. Revenue	22.b	8,239,438	4,520,767
3. Own work capitalised	5	1,335,634	1,616,154
4. Raw materials and consumables	22.c	(28,132)	(416,352)
5. Other operating revenues	22.f	1,470	3,802,047
6. Staff expenses	22.e	(3,045,718)	(3,319,905)
7. Other operating expenses	22.d	(2,702,036)	(4,750,528)
8. Fixed assets amortisation	5 y 6	(1,592,435)	(1,769,985)
9. Allocation of grants and other non-financial assets	20	12,554	15,609
11. Impairment and profit/(loss) on fixes assets disposals			
a) Impairment and losses	5	-	418,032
b) Profit/(loss) on disposals and other		2,145	3,230
12. Other results		(112,972)	(5,373)
A) OPERATING PROFIT/(LOSS)		**2,109,948**	**113,695**
13. Financial income		33,021	20,689
14. Financial expense		(969,119)	(787,108)
15. Change in fair value of financial instruments		-	-
16. Exchange differences		(16,030)	(9,977)
17. Impairment losses on disposal of financial instruments		731	(30,843)
B) FINANCIAL PROFIT/(LOSS)		**(951,397)**	**(807,239)**
C) PROFIT/(LOSS) BEFORE INCOME TAX		**1,158,550**	**(693,544)**
18. Corporate income tax	23	(226,419)	562,624
D) PROFIT/(LOSS) FOR THE YEAR		**932,131**	**(130,919)**

Notes 1-32 are an integral part of the Income Statement at December 31st, 2012

ZINKIA ENTERTAINMENT, S.A.

STATEMENT OF CHANGE IN EQUITY FOR THE YEARS ENDED DECEMBER 31st 2012

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

	12/31/2012	12/31/2011
A) Profit/(loss) for the year	**932,131**	**(130,919)**
Income and expense recognised directly in equity		
I. Change in value of financial assets		-
1. Available-for-sale financial assets		-
2. Other income/expense		-
II. Cash-flow hedges	(4,094)	1,031
III. Grants, donations and bequests received	46,469	50,000
IV. Arising from actuarial gains and losses and other adjustments		-
V. Tax effect	(11,617)	(12,500)
B) Total income and expense recognised directly in equity	**30,758**	**38,531**
Transfers to income statements		
VI. Change in value of financial assets		-
1. Available-for-sale financial assets		-
2. Other income/expense		-
VII. Cash-flow hedges	6,090	26,754
VIII. Grants, donations and bequests received	(12,554)	(15,609)
IX. Tax effect	3,139	3,902
C) Total transfers to income statements	**(3,325)**	**15,047**
TOTAL RECOGNISED INCOME AND EXPENSE (A + B + C)	**959,563**	**(77,341)**

Notes 1-32 are an integral part of the Statement of recognized income and expense at December 31st, 2012

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

	NOTES	REGISTERED CAPITAL	SHARE PREMIUM	RESERVES	TREASURY STOCK	PRIOR-YEAR RESULTS	PROFIT/(LOSS) FOR THE YEAR	VALUE ADJUSTMENTS	GRANTS AND DONATIONS	TOTAL
A. 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
I. Adjustments due to criteria changes										-
II. Adjustments due to errors										-
B. 2011, ADJUSTED STARTING 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
I. Total recognised income and expense	18						(130,919)	27,785	25,793	(77,341)
II. Transactions with shareholders										-
5. Trading treasury stock	16, 17			(24,126)	(603,257)					(627,383)
III. Other movements in equity	18					(2,298,387)	2,298,387			-
C. 2011, ENDING BALANCE		2,445,677	9,570,913	1,151,523	(950,560)	(3,389,611)	(130,920)	(6,000)	105,542	8,796,564
I. Adjustments due to criteria changes										-
II. Adjustments due to errors										-
2012, ADJUSTED STARTING BALANCE		2,445,677	9,570,913	1,151,523	(950,560)	(3,389,611)	(130,920)	(6,000)	105,542	8,796,564
I. Total recognised income and expense	18						932,131	1,996	25,436	959,563
II. Transactions with shareholders										
5. Trading treasury stock	16, 17			(157,170)	546,719					389,549
III. Other movements in equity	18					(130,919)	130,919			0
E. 2012, ENDING BALANCE		2,445,677	9,570,913	994,353	(403,841)	(3,520,530)	932,131	(4,003)	130,978	10,145,677

Notes 1-32 are an integral part of the Statement of total changes in equity at December 31st, 2012

ZINKIA ENTERTAINMENT, S.A.

CASH FLOW STATEMENT FOR THE YEARS ENDED DECEMBER 31st 2012 (in EUR)

A) CASH FLOWS FROM OPERATIONS	NOTES	12/31/2012	12/31/2011
1. Profit before taxes		1,158,550	(693,544)
2. Adjustments to profit (loss)		2,642,105	2,145,726
a) Fixed asset depreciation	5 y 6	1,592,435	1,769,985
b) Value corrections	5 y 8	(731)	(387,189)
c) Allocation of grants	20	(12,554)	(15,609)
d) Profit(loss) from fixed asset disposals		(2,145)	(3,230)
e) Financial income		(33,021)	(20,689)
f) Financial expenses		969,119	787,108
g) Exchange differences		16,030	9,977
h) Change in fair value of financial instruments		-	-
i) Other income and expenses		112,972	5,373
3. Change in working capital		(2,905,434)	1,708,691
a) Debtors and other receivables	7 y 11	(2,429,424)	2,109,867
b) Other current assets and liabilities		3,355	13,558
c) Creditors and other payables	7 y 13	1,472,562	(103,127)
d) Other current liabilities	7 y 13	1,248,256	
d) Other non-current assets and liabilities	7 , 11 y 21	(3,200,183)	(311,607)
4.- Other cash flows from operations		(718,205)	(673,455)
a) Interest paid		(539,606)	(572,992)
b) Dividends received			9
c) Collections (payments) for corporate income tax		(66,612)	(95,100)
d) Other payments (collections)		(112,972)	(5,373)
e) Collections for interests		986	
5.- Cash flows from operations (1+2+3+4)		177,016	2,487,418
B) CASH FLOWS FROM INVESTMENTS			
6. Paid on investments (-)		1,702,557	7,026,438
a) Group companies and associates	7 y 8	68	1,074,331
b) Intangible assets	5	1,410,589	1,637,093
c) Property, plant and equipment	6	7,631	25,449
d) Other financial assets		284,270	4,289,565
g) Other assets		-	-
7. Amounts collected from divestments (+)		371,683	4,310,729
a) Group companies and associates		27,107	-
b) Other financial assets		344,576	4,310,729
8. Cash flows from investments (7-6)		(1,330,875)	(2,715,710)
C) CASH FLOWS FROM FINANCING ACTIVITIES			
9. Collections and payments on equity instruments		389,549	(627,383)
a) Acquisition of equity instruments		(39,369)	(834,664)
b) Disposal of equity instruments		428,918	207,281
10. Collections and payments on financial liability instruments		3,257,598	502,433
a) Issues		4,815,728	2,927,602
1. Debentures and other marketable securities		-	
2. Bank borrowings		1,137,081	32,163
3. Other payables		3,678,647	2,895,439
b) Retur and amortisation of		1,558,130	2,425,169
1. Bank borrowings		997,317	1,638,322
2. Other payables		560,813	786,847
11. Dividend payments and returns on other equity instruments			-
12. Cash flows from financing (9+10+11)		3,647,147	(124,950)
D) Effect of exchange rate fluctuations		13,442	4,562
E) NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)		2,506,731	(348,680)
Cash and cash equivalents at January, 1st		25,819	374,499
Cash and cash equivalents at December, 31st		2,532,549	25,819

Notes 1-32 are an integral part of the Cash Flow Statement at December 31st, 2012

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31st 2012
(in EUR)

1. General information

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

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

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

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

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

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

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

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

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

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

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

2. Basis of presentation

a) Regulatory framework of financial information

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

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

b) True and fair view

These financial statements have been prepared on the basis of the Company's accounting records and they are presented in accordance with regulatory framework of financial information and related accounting rules so as to present fairly the Company's equity, financial situation and results and accurately cash flow in the cash flow statement. These financial statements have been prepared by the Directors and they will be submitted for approval by the general meeting of shareholders and it's considered that they will be approved without any changes. The previous year financial statements were approved by the general meeting of shareholders held on June 22, 2012.

c) Accounting principles

The financial statements were prepared by applying generally-accepted accounting principles. No accounting principles with significant effects on the financial statements were omitted. Although these significant estimates have been made taking the most appropriate information available at 2012 year end, they may probably require to be reviewed in coming years as a result of future events. These changes would be done prospectively.

d) Critical measurement issues and estimates of uncertainty

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

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

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

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

d.2) Useful lives of intangible assets

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.

e) Comparability of information

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

f) Grouping of items

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

g) Changes in accounting policies

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

h) Correction of errors

There were no corrections due to errors from prior years.

i) The going concern principle- Negative Working Capital

The balance sheet shows a negative Working Capital of 1.3 million euro as at December, 31st 2012, mainly due to investments and the maturity of the debt of the Company.

- *Renegotiation process*

During the year, the company has concluded negotiations with four financial entities amounting to 1.1 million euro, EUR 310,000, EUR 160,000, EUR 117,000, also the National Innovation Company amounts to EUR 500,000. So at the year end due amounts were current on payments.

- *Overdue balances at December, 31st and measures taken by Banks*

The overdue balances with financial entities at December, 31st 2012 amount to EUR 70,300 and EUR 375,180. About the first one amount was regularized by the company in February, 2013. The second overdue balance has been regularized by the company through a refinancing agreement so loans shown in financial liability are regularized.

- *New shares in order to generate cash*

In order to solve financial resources deficit in 2012, different alternatives have been considered while traded with potential funders also included the current;

- Increased incomes due to international expansion of the brand thereby obtaining cash flow from different countries.
- Operating profits coming from digital licenses, online content and related advertising. Collection period of these kinds of licenses is lower than traditional and it increases recurrent incomes.
- On December, 4th 2012 the Company was informed about the granting of financial aid by the Ministry of Industry, Tourism and Energy. This economic aid amounts to EUR 2,421,347 which is a grant amounts to EUR 283,196 and a loan amounts to EUR 2,137,711. The purpose of this aid is a new project which will be developed with the company´s own staff so it will cover regular costs.
- The company is currently in a process of seeking funds to develop the business plan with several options (financial entities, investment funds, debt issue...).

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

The Company's directors believe that these actions, will lead to the necessary financial resources to meet all the commitments of the Company.

3. Accounting policies

3.1 Intangible assets

a) Research and development expenses

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

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

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

b) Licenses and trademarks

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

c) Computer software

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

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

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

3.2 Property, plant and equipment

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

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

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

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

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

Property, plant and equipment	**Years**
Machinery and tooling	4 - 8
Other equipment	8
Furnishings	10
Data-processing equipment	4 - 5
Other PPE	10

The residual values and useful lives of assets are reviewed and adjusted, if necessary, at each balance sheet date.

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

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

3.3 Interest costs

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

3.4 Losses due to impairment of non-financial assets

Assets with indefinite useful lives, such as goodwill, are not amortised but rather tested annually for impairment. Depreciable assets are tested for losses due to impairment whenever there is an event or circumstance that indicates that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, understood as the asset's fair value less the higher of costs to sell and value in use. For the purposes of assessing impairment losses, assets are grouped together at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units). Non-financial assets other than goodwill, which are impaired, are reviewed at the balance sheet date for reversal of the loss.

3.5 Financial assets

a) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in "Loans to companies" and "Trade and other receivables" in the balance sheet.

Financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortised cost. Accrued interest is recognised at the effective interest rate, which is the discount rate that brings the instrument's carrying amount into line with all estimated cash flows to maturity. However, trade receivables falling due in less than one year are carried at their face value at both initially and subsequently, provided that the effect of not updating the cash flows is not significant.

At least once a year at year end, the necessary value adjustments are made to account for impairment when there is objective evidence that all receivables will not be collected.

The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate prevailing at the date of initial recognition. Value adjustments, and reversals, where applicable, are recognised in the income statement.

b) Held-to-maturity investments: Held-to-maturity financial assets are debt securities with fixed or determinable payments and fixed maturity, that are traded on an active market and that Company management has the positive intention and ability to hold to maturity. If the Company sells a material amount of held-to-maturity financial assets, the entire category would be reclassified as available for sale. These financial assets are included in non-current assets, except for those maturing in less than 12 months of the balance sheet date which are classified as current assets.

The measurement criteria applied to these investments are the same as for loans and receivables.

c) Financial assets held for trading: All those assets held for trading, purchased for sale in the short term or that form part of an instrument portfolio, identified and managed jointly to obtain short-term gains. Derivatives are also classified as held for trading provided that they do not relate to a financial guarantee contract and have not been designated as a hedge.

d) Other Financial assets at fair value through profit or loss: are considered financial assets at fair value through profit or loss those financial assets designated by the Company upon initial recognition for inclusion in this category due to this recognition reduces accounting mismatches or these assets are included in a group whose performance is measured at fair value according to an informed strategy.

e) Equity investments in group companies, jointly-controlled entities and associates: They are stated at cost less, where appropriate, accumulated value adjustments for impairment. Nonetheless, when there is an investment prior to its classification as a group company, jointly-controlled entity or associate, its carrying value prior to that classicisation is regarded as the investment cost. Previous value adjustments accounted for directly in equity are held under this heading until they are written off.

If there is objective evidence that the carrying value cannot be recovered, adjustment are made as necessary to reflect the different between the carrying value and the recoverable amount, this being understood as the fair value less the cost of the sale and the current value of the cash flows derived from the investments, whichever is greater. Unless there is better evidence of the recoverable value, when estimating the impairment of these investment the net equity of the investee company corrected by the tacit surpluses existing on the valuation date is taken into account. The value adjustment and, if appropriate, its reversal, are reflected in the income statement for the year in which they arise.

There is permanent impairment when greater than 40% decrease in the market value of the asset or decreasing continues for a year and a half without recovering value.

f) Available-for-sale financial assets: This category includes debt securities and equity instruments that have not been classified in any of the preceding categories. They include non-current assets unless management intends to sell the investment within 12 months of the balance sheet date.

They are measured at fair value and any changes are recorded in equity until the asset is disposed of or is impaired, at which time accumulated gains and losses are taken to the income statement provided that such fair value can be determined. Otherwise, they are reflected at cost less impairment.

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

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

The fair values of quoted investments are based on prevailing bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of observable market data and relying as little as possible on the Company's subjective considerations.

Financial assets are written off when substantially all the risks and rewards attaching to ownership of the asset are transferred. For accounts receivable in particular, this situation is generally understood to arise if the insolvency and default risks have been transferred.

Assets designated as hedged items are subject to the measurement requirements of hedge accounting (Note 3.6).

3.6 Financial derivatives and hedge accounting

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

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

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

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

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

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

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

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

3.7 Equity

Share capital consists of ordinary shares.

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

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

3.8 Financial liabilities

a) <u>Creditors and payables</u>

This includes trade and non-trade payables. Borrowings are classed as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months as from the balance sheet date.

Payables are initially recognised at fair value, adjusted for directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method. The effective interest rate is the discount rate that brings the instrument's carrying amount into line with the expected future flow of payments to the maturity date of the liability.

Nonetheless, trade payables falling due in less than one year without a contractual interest rate are carried at their face value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant.

In the event of the renegotiation of existing debts, the financial liability is not deemed to change significantly when the lender of the new loan is the same as the initial lender and the present value of cash flows, including net fees, is not more than 10% higher or lower than the present value of cash flows payable on the original liability, calculated using the same method.

For convertible bonds, the Company determines the fair value of the liability component by applying the interest rate for similar non-convertible bonds. This amount is recorded as a liability on an amortised cost basis until it is settled on conversion or maturity of the bonds. Other income obtained is assigned to the conversion option that is recognised in equity.

b) <u>Financial liabilities held for trading:</u> All those held-for-trading liabilities issued to be repurchased in the short term or that are part of a financial instrument portfolio, identified and managed jointly to obtain short-term gains. Derivatives are also classified as held for trading provided that they do not relate to a financial guarantee contract and have not been designated as a hedge.

c) Other Financial liabilities at fair value through profit or loss: are considered financial liabilities at fair value through profit or loss those financial liabilities designated by the Company upon initial recognition for inclusion in this category due to this recognition reduces accounting mismatches or these liabilities are included in a group whose performance is measured at fair value according to an informed strategy.

3.9 Grants received

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

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

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

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

3.10 Current and deferred taxes

Income tax expense (income) is the amount of income tax that accrues during the period. It includes both current and deferred tax expense (income).

Both current and deferred tax expense (income) is recognised in the income statement. However, the tax effect of items recorded directly in equity is recognised in equity.

Current tax assets and liabilities are carried at the amounts that are expected to be payable to or recoverable from the tax authorities, in accordance with prevailing legislation or regulations that have been approved and are pending publication at the year end.

Deferred income tax is calculated, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, if the deferred tax arises from the initial recognition of a liability or an asset on a transaction other than a business combination that at the time of the transaction has no effect on reported or taxable results, they are not recognised. The deferred tax is determined applying tax regulations and rates approved or about to be approved at the balance sheet date and which are expected to be applied when the corresponding deferred tax asset is realised or deferred tax liability is settled.

Deferred tax assets are recognised insofar as future tax profits will probably arise against which to offset the temporary differences.

Deferred taxes on temporary differences arising on investments in subsidiaries, associates and joint ventures are recognised, except where the Company is able to control the reversal date of the temporary differences and such differences are unlikely to reverse in the foreseeable future.

3.11 Severance pay

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

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

3.12 Provisions and contingent liabilities

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

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

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

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

Contingent liabilities are considered to be potential liabilities deriving from past events, the existence of which is subject to the occurrence of one or more future events that lie outside the control of the Company. These contingent liabilities are not recorded in the accounts but are described in the notes presenting the financial statements.

3.13 Revenue recognition

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

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

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

In accordance with BOICAC 80/2009, which details how to account incomes by audiovisual and cinematographic companies, the accrual of the amounts agreed with the client by guaranteed minimum arrives when agreement is signed so these incomes are recorded at the agreement date. The balancing entry of this income will be an asset in which it reflects the guaranteed minimum which the accrue has occurred. This account will diminish acording to the billing of quantities by the agreed dates.

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

The Company recognises royalty's revenues when they arise if it is possible.

In both cases, the company recognises incomes according to the accrual principle either by agreement date or by income generation period.

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

3.14 Leases

a) When the Company is lessee – Finance leases

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

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

b) When the Company is the lessee – Operating leases

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

3.15 Foreign currency transactions

a) Functional and presentation currency

The annual accounts are presented in euro, which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates prevailing at the transaction dates. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in fair value of monetary instruments denominated in foreign currency classified as available for sale are analysed for translation differences resulting from changes in the amortised cost of the instrument and other changes in its carrying value. Translation differences are recognised in results for the year while other changes in fair value are recognised in equity.

Translation differences on non-monetary items such as equity instruments held at fair value through profit or loss are presented as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in equity.

3.16 Transactions between related parties

In general, transactions between group companies are initially recognised at fair value. If applicable, where the agreed price differs from the fair value, the difference is recognised based on the economic reality of the transaction. Transactions are subsequently measured in accordance with applicable standards.

However the above, in company mergers transactions, spin-off procedure or non-monetary investment, the company applies following criteria:

a) For transactions between related parties involved in the parent company or its subsidiary directly or indirectly, business items are valued by the amount after transaction and so are reflected in consolidated financial statements.
b) For transactions between other related parties, business assets are valued at book value before transaction and so are reflected in individual financial statements.

If there is a difference it will be included in reserves.

3.17 Share-based payment transaction

The Company has committed to certain senior management employees, a plan for long-term variable remuneration consisting of the delivery of shares. At the time that will occur the necessary conditions to execute that plan, the Company will recognize this fact in equity.

The Company has established, by loan agreement with a private institution, a share-based payment of a portion of the amount financed. Upon maturity of the loan, the company will deliver shares in the amount agreed cancelling them from equity, particularly under the heading "Treasury Stock".

For transaction with employees to be settled with equity instruments, both goods or services as the increase in equity to recognize, will be valued according to the fair value of the equity instruments granted, referring to the date of the concession agreement. Those transactions settled with equity instruments that do result in goods or services other than those rendered by employees are valued, if it can be estimated reliably, the fair value of the goods or services on the date they are received. If the fair value of the goods or services received cannot be estimated reliably, goods and services received and the increase in equity will be valued at fair value of the equity instruments granted, referring to the date on which the company obtains the goods or the counterparty renders service.

4. Financial risk management

4.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on unpredictability of financial markets and seeks to minimise the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

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

a) Market risk

(i) Foreign exchange risk

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

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

(ii) Price risk

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

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

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

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to the cash flow interest rate risk. Fixed interest rate borrowings expose the Company to fair value interest rate risks.
The Company analyses its interest rate exposure in a dynamic manner. A simulation is performed of various scenarios, taking into account the refinancing, renewal of current positions, alternative financing and hedging. On the basis of these scenarios, the Company calculates the effect on results of a certain variation in the interest rate. For each simulation, the same variation in interest rates is used for all currencies. Scenarios are only simulated for liabilities representing the most significant interest-bearing positions.

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

b) **Credit risk**

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

c) **Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, keeping funds available through sufficient committed credit facilities and having the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company's Treasury Department aims to maintain flexibility in funding by keeping credit lines available.

4.2 Fair value estimation

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

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

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

5. Intangible assets

The details and movements of the items included in intangible fixed assets are as follows:

Euro	Balance at 12/31/2011	Additions	Disposals or reductions	Transfers	Balance at 12/31/2012
Cost					
Research and development	5,015,960	1,335,634	-	-	6,351,594
Intellectual property	11,825,852	51,167	-	-	11,877,019
Computer software	514,274	2,096	-	-	516,370
Intangible assets advances	16,082	21,692	-	-	37,773
Total	**17,372,167**	**1,410,589**	**-**	**-**	**18,782,756**
Accumulated amortisation					
Research and development	(246,985)	-	-	-	(246,985)
Intellectual property	(7,708,323)	(1,529,253)	-	-	(9,237,576)
Computer software	(433,899)	(31,634)	-	-	(465,533)
Total	**(8,389,207)**	**(1,560,887)**	**-**	**-**	**(9,950,094)**
Impairment	-	-	-	-	-
Total	**8,982,959**	**(150,298)**	**-**	**-**	**8,832,662**

Euro	Balance at 12/31/2010	Additions	reductions	Transfers	Balance at 12/31/2011
Cost					
Research and development	5,134,781	1,616,154	-	(1,734,975)	5,015,960
Intellectual property	10,090,877	-	-	1,734,975	11,825,852
Computer software	509,416	4,858	-	-	514,274
Intangible assets advances	-	16,082	-	-	16,082
Total	**15,735,074**	**1,637,093**	**-**	**-**	**17,372,167**
Accumulated amortisation					
Research and development	(246,985)	-	-	-	(246,985)
Intellectual property	(6,009,231)	(1,699,092)	-	-	(7,708,323)
Computer software	(395,975)	(37,924)	-	-	(433,899)
Total	**(6,652,191)**	**(1,737,016)**	**-**	**-**	**(8,389,207)**
Impairment	(418,032)	418,032	-	-	-
Total	**8,664,851**	**318,109**	**-**	**-**	**8,982,959**

The additions in 2012 referred primarily to work done by the company on its own assets.

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

Research and development expenses

Development costs capitalised relate to the following projects:

Euro				2012
Project	Cost	Acumulated amortisation	Impairment	Carrying value
Developed by the company				
Work in progress	6,104,609	-	-	6,104,609
Completed projects	246,985	(246,985)	-	-
	6,351,594	**(246,985)**	-	**6,104,609**

Research and development costs recognised in the income statement during the year totals EUR 1,335,634.

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 2012.

Intangible assets located abroad

At 12.31.12, the Company had no intangible asset investments located outside of Spain.

Fully-amortised intangible assets

At 12.31.12, there were intangible fixed assets with an accounting cost of EUR 3,771,366 still in use and fully amortised. These intangible assets correspond to software and audiovisual projects.

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

Assets subject to guarantees and ownership restrictions

At 12.31.12, no intangible assets are subject to ownership restrictions or have been pledged to secure liabilities. At 12.31.11 the situation was the same.

Insurance

The Company has taken out a number of insurance policies to cover risks relating to intangible assets. The coverage provided by these policies is considered to be sufficient.

Grants received in relation to intangible assets

Along the year, the Company has received capital grants for development of digital TV that amounts to EUR 60,000 and interactive project Playset amounts to EUR 283,196. These grants are subject to compliance with the Ministry of Industry requirements. Therefore the company does not include these amounts in equity until the requirements are complied and grants could be

considered non-refundable. On the other hand, the company has received confirmation of the outstanding amount of the grant for Fishtail on line project amounts to EUR 46,469 (Note 20). This amount is the only included in Company's equity at December 31st.
The Company received in 2011 capital grants for the acquisition of computer software (Note 20) that amounts to EUR 23,963.

6. Property, plant and equipment

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

Euro	Balance at 12/31/2011	Additions	Disposals or reductions	Transfers	Balance at 12/31/2012
Cost					
Machinery	31,689	-	-	-	31,689
Other equipment	38,198	-	-	-	38,198
Furnishings	73,346	2,715	-	-	76,062
Data-processing equipment	151,164	4,916	-	-	156,080
Other PPE	28,444	-	-	-	28,444
Total	**322,841**	**7,631**	**-**	**-**	**330,470**
Accumulated amortisation					
Machinery	(31,285)	(120)	-	-	(31,405)
Other equipment	(25,921)	(4,003)	-	-	(29,923)
Furnishings	(45,930)	(5,676)	-	-	(51,606)
Data-processing equipment	(109,283)	(18,910)	-	-	(128,193)
Other PPE	(10,246)	(2,838)	-	-	(13,084)
Total	**(222,665)**	**(31,547)**	**-**	**-**	**(254,212)**
Impairment	-	-	-	-	-
Total	**100,176**	**(23,916)**	**-**	**-**	**76,258**

Euro	Balance at 12/31/2010	Additions	Disposals or reductions	Transfers	Balance at 12/31/2011
Cost					
Machinery	31,689	-	-	-	31,689
Other equipment	34,517	3,681	-	-	38,198
Furnishings	65,399	7,948	-	-	73,346
Data-processing equipment	139,115	12,049	-	-	151,164
Other PPE	26,672	1,772	-	-	28,444
Total	**297,392**	**25,449**	**-**	**-**	**322,841**
Accumulated amortisation					
Machinery	(31,167)	(118)	-	-	(31,285)
Other equipment	(22,359)	(3,562)	-	-	(25,921)
Furnishings	(39,430)	(6,500)	-	-	(45,930)
Data-processing equipment	(89,235)	(20,048)	-	-	(109,283)
Other PPE	(7,506)	(2,740)	-	-	(10,246)
Total	**(189,697)**	**(32,969)**	**-**	**-**	**(222,665)**
Impairment	-	-	-	-	-
Total	**107,695**	**(7,520)**	**-**	**-**	**100,176**

Impairment losses

The company did not recognise any losses due to the impairment of its property, plant and equipment in 2012.

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

No revaluations of fixed assets have been applied during year 2012.

Property, plant and equipment located abroad

As at 12.31.12, the Company recorded the following investments in property, plant and equipment located at its Beijing offices:

				2012
Fixed assets	**Cost**	**Accumulated amortisation**	**Impairment**	**Carrying value**
Furnishings	7,001	(4,734)	-	2,267
Data-processing equipment	10,571	(10,359)	-	212
	17,572	(15,093)	-	2,480

Capitalised financial expenses

No financial expenses were capitalised in 2012.

Fully-depreciated assets

At 12.31.12, the Company had fully depreciated assets valued at 181,356 still in use.

	2012
Machinery	30,559
Data-processing equipment	97,072
Furnishings	30,062
Other PPE	23,664
	181,356

Property, plant and equipment subject to guarantees

At 12.31.12, no property, plant and equipment were subject to ownership restrictions or had been pledged to secure liabilities.

Assets under operating leases

The income statement includes operating leases on the rental offices in Madrid and Beijing and computer rentals, all of which total EUR 304,763. At 12.31.12 the Company has not non-cancellable operating leases.

Insurance

The Company has taken out a number of insurance policies to cover risks relating to property, plant and equipment. The coverage provided by these policies is considered to be sufficient.

Grants received in relation to property, plant and equipment

In 2012, the company has not received capital grants in relation to property, plan and equipment.

In 2011, the Company received capital grants for the acquisition of data-processing equipment (Note 20) that amounts to EUR 26,868.

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	
	2012	2011	2012	2011	2012	2011
Available-for-sale financial assets	28,183	32,270	-	-	-	-
Loans and receivables (Note 11)	-	-	-	-	3,979,292	411,644
Total non-current financial assets	28,183	32,270	-	-	3,979,292	411,644
	Current financial assets					
	Equity instruments		Debt securities		Credit facilities, derivatives, other	
	2012	2011	2012	2011	2012	2011
Assets held for trading	181	192	-	-	-	-
Held to maturity (Note 9)	-	-	-	17,000	-	-
Loans and receivable (Note 11)	-	-	-	-	4,472,426	2,172,452
Total current financial assets	181	192	-	17,000	4,472,426	2,172,452
Total	28,364	32,462	-	17,000	8,451,718	2,584,096

	Euro					
	Non-current financial liabilities					
	Bank borrowings		Debentures an other marketable securities		Derivatives, other	
	2012	2011	2012	2011	2012	2011
Borrowings and payables (Note 13)	759,295	543,593	-	1,771,536	5,761,894	2,546,469
Hedging derivatives (Note 12)	-	-		-	53	5,999
Total non-current financial liabilities	759,295	543,593	-	1,771,536	5,761,947	2,552,468
	Current financial liabilities					
	Bank borrowings		Debentures		Derivados, otros	
	2012	2011	2012	2011	2012	2011
Borrowings and payables (Note 13)	1,405,032	1,651,174	2,027,004	29,840	3,288,548	1,431,775
Total current financial liabilities	1,405,032	1,651,174	2,027,004	29,840	3,288,548	1,431,775
Total	2,164,328	2,194,767	2,027,004	1,801,377	9,050,495	3,984,243

At December 31st, 2012 the Company has a deposit of restricted availability related to the issuance of bonds amounts to euro 122,842.

At December 31st, 2012, the Company has loan payments overdue. Most of them are related to refinancing agreement with a financial entity so currently this situation are regularized (Note 2i).

The difference resulting from the bond issue rate by the effective interest method compared to the nominal interest rate amounts to euro 225,576.

7.2 Analysis by maturity

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

	Euro					
	Financial Assets					
	2013	2014	2015	2016	There after	Total
Investments in group companies and associates						
-Loans and receivables	445,660	-	-	-	-	445,660
Total	445,660	-	-	-	-	445,660
Other financial investments						
-Loans and receivables	4,026,766	1,828,983	2,150,309	-	-	8,006,058
Total	4,026,766	1,828,983	2,150,309	-	-	8,006,058
Total	4,472,426	1,828,983	2,150,309	-	-	8,451,718

	Financial liabilities					
	2013	2014	2015	2016	There after	Total
Bank borrowings	1,405,032	295,020	156,764	48,697	258,815	2,164,328
Derivaties	-	53	-	-	-	53
Other financial liabilities	5,315,552	2,642,187	18,501	199,791	2,901,414	11,077,446
Total	6,720,584	2,937,260	175,265	248,488	3,160,229	13,241,826

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

a) Shareholdings in Group companies

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

		% Interest held		Voting rights	
Name and address	Legal status	Direct %	Indirect %	Direct %	Indirect %
Sonocrew, S.L. Infantas 27, Madrid	Limited liability company	100,00%	-	100,00%	-
Producciones y Licencias Plaza de España, S.A. de C.V. Av Presidente Massaryk 61, piso 2, México D.F.	Public limited company	100,00%	-	100,00%	-
Cake Entertainment, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	51,00%	-	51,00%	-
Cake Distribution, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	-	51,00%	-	51,00%
Cake Productions, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	-	51,00%	-	51,00%
HLT Productions Van der Helstlaan 48. 1213 CE Hilversum. The Netherlands	Private limited company	-	51,00%	-	51,00%

On August, 9th 2010, the Company made an investment in a group company with the creation of the subsidiary Producciones y Licencias Plaza de España, S.A. de C.V. This subsidiary is located abroad, in Mexico, and its operating currency is the Mexican peso.

A 51% stake in the company Cake Entertainment, Ltd. was acquired on June, 2nd 2011. The company is headquartered in England and its functional currency is the pound sterling.

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

Set out below are the figures for capital, reserves, results and other information at 31 December 2012:

	Equity						
Company	**Capital**	**Reserves**	**Other**	**Operating results**	**FY profit (loss)**	**Carrying value of the investment**	**Dividends received**
Sonocrew, S.L.	3,006	41,005	-	11,804	8,874	3,006	-

	Equity							
	Mexican peso					Euro		
Company	**Capital**	**Reserves**	**Losses carryforwards**	**Operating results**	**FY profit (loss)**	**Carrying value of the investment**	**Value adjustments for impairment**	**Dividends received**
Producciones y Licencias Plaza de España, S.A. de C.V.	1,209,000	-	(1,013,917)	(172)	(359)	72,933	(61,400)	-

	Equity								
	Euro								
Company	**Capital**	**Share premium**	**Reserves**	**Losses carryforwards**	**Operating results**	**FY profit (loss)**	**Carrying value of the investment**	**Value adjustments for impairment**	**Dividends received**
Cake Entertainment, Ltd	1,360	164,204	-	(346,975)	40,400	162,327	989,158	-	-

	Equity								
	Euro								
Company	**Capital**	**Share premium**	**Reserves**	**Losses carryforwards**	**Operating results**	**FY profit (loss)**	**Carrying value of the investment**	**Value adjustments for impairment**	**Dividends received**
Cake Distribution, Ltd	245	-	881,856	-	276,995	(130,375)	-	-	-

	Equity								
	Euro								
Company	**Capital**	**Share premium**	**Reserves**	**Losses carryforwards**	**Operating results**	**FY profit (loss)**	**Carrying value of the investment**	**Value adjustments for impairment**	**Dividends received**
Cake Productions, Ltd	3	-	-	-	(56,567)	(56,567)	-	-	-

	Equity								
	Euro								
Company	**Capital**	**Share premium**	**Reserves**	**Losses carryforwards**	**Operating results**	**FY profit (loss)**	**Carrying value of the investment**	**Value adjustments for impairment**	**Dividends received**
HLT Productions Bv	18,000	-	97,101	-	7,014	(119,131)	-	-	-

In 2012, 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.

Until 2012 Cake Entertainment Ltd. is the parent company of a group of companies with two subsidiaries: Cake Distribution Ltd and HLT Productions Bv. In 2012 a third subsidiary has been started up named Cake Productions Ltd. This company is 100% Cake Entertainment Ltd. subsidiary.

9. Held-to-maturity investments

At 12.31.12 the company has not held-to-maturity investments.

This caption includes the following items and amounts at 12.31.11:

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

10. Financial assets held for trading

This heading includes the following items and amounts:

Euro

	2012	2011
Held for trading-listed securities		
SCH bank shares (Note 7)	181	192

The fair value of all equity securities is based on current asking prices on an active market.

The changes to the fair value of assets at fair value with changes in profit and loss during the year are recorded under financial profit/loss on the income statement.

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

11. Loans and receivables

Euro

	2012	2011
Non-current loans and receivables		
-Clients, non-current	3,979,292	411,644
Total non-current loans and receivables	**3,979,292**	**411,644**
Current loans and receivables		
-Loans to associates (Note 26)	413,218	422,512
-Current account with subsidiaries (Note 26)	416	349
-Current account with related parties	4,755	4,233
-Trade receivables	3,415,252	1,538,096
-Trade receivables subsidiaries	461,236	
-Debtors	-	109
-Interest in current investments (Note 26)	32,026	17,813
-Current deposits	145,523	139,340
-Financial products	-	50,000
Total current loans and receivables	**4,472,426**	**2,172,452**
Total	**8,451,718**	**2,584,096**

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

	2012	2011
Euro	1,547,696	1,615,968
US dolar	6,510,056	670,190
Pound sterling	109,537	60,090
Australian dolar	69,302	76
Yuan	212,192	237,182
Other	2,935	590
Total	**8,451,718**	**2,584,096**

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

Also, non current trade receivables item in the balance sheet shown client balances with maturity exceeding 12 months from the end of the year. At December, 31st 2012, non current trade receivables were recognised amounting to EUR 3,979,292 and this item at the year end 2011 amounted to EUR 411,644.
This item includes amortised cost valuation balances maturing after one year. This valuation makes a decrease of the item and accordingly the profit before tax amounts to EUR 330,216.

At December, 31st 2012 has not been necessary to provide provisions for commercial transactions. If necessary, all due or not receivables due or not with doubtful recoverability would be provisioned. Impairment adjustments to trade receivables would be recognised by estimated loss from impairment for each client. The impairment for trade receivables would correspond to balances with collections problems. At the end of the year, the impairment of these balances amount to EUR 79,031. The previous year this amount was EUR 104,917. The other accounts include in the item loans and receivables have not been impaired.

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

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

A right of charge amounts to EUR 207,639 is guaranteeing a delay with the Treasury (Note 16). An agreement with a client is the guarantee of the performance by the Company of these obligations until the total amount and the present and future yields.

12. Derivative financial instruments

Euro

	2012	2011
Interest rate swaps-clash flow hedges	-	5,999
CAP	53	-
Total	**53**	**5,999**
Less non-current portion	53	5,999
Non-current	**53**	**5,999**
Current	**-**	**-**

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

The notional principal on interest rate swaps outstanding at December, 31st 2012 was EUR 200,000. At December, 31st 2011 these amounted to EUR 500,000.

At 12.31.12, the company has subscribed an agreement C.A.P. with EUR 3,950 premium. At the year end C.A.P. showed a negative valuation amounts EUR 53.

At 12.31.12, fixed interest rate is 1.95%. The floating interest rate was 12M Euribor. Gains/ losses recognised in equity under "Value changes adjustments" on interest rate swaps at 12.31.12 will be transferred to the income statement on a consistent basis until the relevant bank loans are repaid.

13. Creditors and payables

Euro

	2012	2011
Non-current creditors and payables		
-Bank loans	759,295	543,593
-Participating loans	500,000	-
-Other loans	4,918,698	2,500,000
-Debentures and bonds	-	1,771,536
-Payables transformable into grants	343,196	46,469
Total non-current creditors and payables	**6,521,189**	**4,861,598**
Current creditors and payables		
-Bank loans	1,390,123	1,327,467
-Other payables to banks	1,660	323,707
-Interest debt with banks	13,249	-
-Debentures and bonds	2,027,004	29,840
-Trade creditors	2,204,575	907,775
-Fixed assets creditors	44,625	52,879
-Participating loans	-	375,000
-Current account with related parties	86,801	-
-Interest debt with related parties	1,310	-
-Other debts	382,000	
-Interest debt	200,989	32,758
-Wages and salaries pending of payment	368,248	32,996
-Advances from clients	-	30,367
Total current creditors and payables	**6,720,583**	**3,112,789**
Total	**13,241,772**	**7,974,388**

The carrying value of non-current loans is close to fair value, given that the future cash flows derived from the repayment of the loans includes market rate interest.

The carrying amounts of current payables approximate their fair values, since the effect of discounting is immaterial.

Maturity of bank borrowings is detailed in note 7.2. Interest rates are between 2% and 6%.

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

Euro

	2012	2011
Euro	12,758,503	7,772,088
US dolar	459,015	186,735
Pound sterling	14,274	-
Argentine peso	-	1,120
Brazilian real	-	12,950
Yuan	9,981	1,495
Total	**13,241,772**	**7,974,388**

a) <u>Bank borrowings</u>

The details of the Company's balances with credit institutions at December, 31st 2012 are as follows:

Euro

	Non-current balance	Current balance	Total
Loans	759,295	1,390,123	2,149,418
Total loans	**759,295**	**1,390,123**	**2,149,418**

Euro

	Non-current balance	Current balance	Total
Credit facilities	-	1,660	1,660
Total credit facilities	**-**	**1,660**	**1,660**
Interest on current bank borrowings	-	13,249	13,249
Total interest on current bank borrowings	**-**	**13,249**	**13,249**
TOTAL	**759,295**	**1,405,032**	**2,164,326**

b) <u>Participating loans</u>

The Company has a participating loan with fixed annual interest rates of Euribor plus 2 percent to December 31st, 2012. Thereafter a 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%.

Repayment of the loan will be made in six equal semi annual payments from June 30th, 2016.

c) Fixed income securities issue

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

The conditions of the issue are as follows:

Number of securities	2,238
Unit par value	1,000
Issue price	100%
Annual interest rate payable annually	9.75%
Amortisation of securities	12/11/2013
Amortisation system	Par

d) Other loans from private institutions

In 2012 the Company signed the following loans with private entities:

On October 19th, 2012, the Company signed a loan with a private entity for an amount of euro 332,000. At the same date the Company has granted shares purchase agreement of 347,554 company´s shares ownership of this private entity. Price is subject to trading of these shares at the time of the purchase and sale (Note 28)

On the other hand, the above contract includes pledge of funds of the entity amounting to EUR 748,198 as a guarantee for the Company. This guarantee is required by Ministry of Industry in order to obtain Avanza funds.
The company also agrees to release funds from this private entity within 15 days after receiving the economic aid. To this date, the company has replaced the guarantee with funds received.

On November 15th, 2012 the Company signed a loan with a private entity for an amount of euro 50,000.

Currently, both loans are amortised and cancelled.

Current accruals and deferred income

This amount arises in 2012 following the contract signed for development of content in educational *apps* concept. In October was invoiced the amount for seven apps developed. Accordance with the accounting standards applied by the company incomes from this project will accrue at the delivery of materials. This item will decrease according to allocation of incomes.

14. Cash and cash equivalents

At 12.31.12, the Company's cash situation was as follows:

	2012	2011
		Euro
Cash at bank and in hand	2,530,618	24,993
Other cash equivalents	1,931	826
Total	**2,532,549**	**25,819**

15. Capital and share premium

a) Capital

	2012	2011
		Euro
Registered capital	2,445,677	2,445,677
(Uncalled capital)	-	-
Total	**2,445,677**	**2,445,677**

At 12.31.12, the registered capital consisted of 24,456,768 ordinary bearer shares represented by book entries with a par value of EUR 0.10 each, fully subscribed and paid in.

At 12.31.12, the share capital was broken down as follows:

Shareholder	**% Interest**
Jomaca 98, S.L.	64.71%
Miguel Fernando Valladares	11.20%
Stock market and other	22.94%
Treasury shares	1.15%
Total	**100.00%**

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

b) Share premium account

This reserve is freely available for distribution.

	2012	2011
		Euro
Share premium	9,570,913	9,570,913
Total	**9,570,913**	**9,570,913**

This caption also reflects, for both 2011 and 2012, the merger premium generated in fiscal year 2004 as a result of the merger by absorption of the companies Gamecrew, S.L. and Motioncrew, S.L. in the amount of EUR 118,100.25.

16. Reserves and prior-year results

a) Reserves

	2012	2011
		Euro
Legal and statutory		
-Legal reserve	237,262	237,262
Total legal reserve	237,262	237,262
Other reserves		
-Voluntary reserve	1,672,369	1,672,369
-Reserves for other adjustments	(915,278)	(758,108)
Total other reserves	757,091	914,261
Total	**994,353**	**1,151,523**

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:

	2012	*Euro*
	Number of shares	Euro
Starting balance	579,367	950,560
Additions	36,122	39,369
Disposals	(333,986)	(586,088)
Ending balance	**281,503**	**403,841**

At the end of the year 2011 the movements were as follows:

Euro

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

The treasury stock held by the Company at 12.31.12 represented approximately 1.15% (2.37% at 12.31.11) of the share capital with a nominal value of EUR 28,150 (EUR 57,937 at 12.31.11) and an average acquisition price of EUR 1.09 (EUR 1.64 at 12.31.11) per share. The average sale price of the Company's treasury stock at December, 31st 2012 was EUR 1.75 per share (EUR 1.67 at 12.31.11).

18. Profit/(loss) for the year

a) Profit /(loss) for the period

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

Euro

	2012	2011
Available for distribution		
Profit/(loss) for the year	932,131	(130,919)
Total	**932,131**	**(130,919)**
Application		
Legal reserve	93,213	-
Retained losses offsetting	838,918	
To prior-year losses	-	(130,919)
Total	**932,131**	**(130,919)**

19. Based payment transactions in equity instruments.

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

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

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

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

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

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

At December 31st 2012, there were no conditions mentioned above to implement the plan, so no need to recognize both the good or services received as an increase in equity.

b) <u>Other share based payment</u>

On March 11th 2011, the Company issued a Relevant Fact under Article 82 of Securities Market Law 24/1988 and Memorandum 9/2010 of the Spain's Alternative Investment Market (Mercado Alternativo Bursatil –MAB) which reported signing a loan with a private institution for amount of euro 2,500,000. In the loan agreement signed by both parties set out the compulsory purchase of own shares by the Company amounting to euro 300,000, must provide, upon maturity of the loan-February 14th 2014- the amount of euro 2,200,000 plus shares acquired with the above euro 300,000.
The company bought own shares amounting to EUR 300,000 in accordance with the agreement. These own shares are registered in a separate account decreasing company net equity. In the balance sheet are valued at weighted average price. In the event that the value of the shares, at that date, is less than that amount, the Company undertakes to cover the difference in share or cash.
Number of shares acquired was of 206,881 shares and their market value amounted to EUR 239,982 (EUR 302,046 at 12.31.2011).

20. Capital grants received

Below is a breakdown of the non-repayable capital grants included in the balance sheet item "Grants, donations and bequests received":

Granting entity	Euro	Purpose	Grant date
Education, Audiovisual and Culture Agency	150,000	Pre-production of 3 audiovisual works	06/11/2007
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	03/08/2010
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	03/08/2010
Ministry of Culture	46,469	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	03/08/2010

The changes in grants are analyzed below:

	2012	2011
		Euro
Opening balance	105,542	79,748
Increases	46,469	50,000
Release to income	(12,554)	(15,609)
Other decreases	(8,479)	(8,598)
Closing balance	**130,978**	**105,542**

In the current year, is recognized as non refundable grant the rest of the amount received in 2010 as capital investment aid from the Ministry of Culture. Other grants were recognized in the last year to be considered as non refundable The decreases correspond to the charge to income and the tax effect, result of applying a tax rate of 25% (see Note 21).

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

21. Tax receivables and payables

a) Deferred tax

Set out below is an analysis of deferred tax:

Euro	Additions 2012	Additions 2011	Prior years	Total
Tax credits for tax-loss carryforwards	(338,743)	176,171	1,555,932	1,393,360
Other tax credits	174,845	484,481	2,373,074	3,032,399
Deferred tax assets	**(163,898)**	**660,651**	**3,929,006**	**4,425,759**
Temporary differences related to income recognized directly in equity	(8,479)	(8,598)	(26,583)	(43,660)
Temporary differences-amortisation	-	(5,535)	(13,092)	(18,627)
Reversal of temporary differences-amortisation	4,091	2,607	-	6,699
Deferred tax liabilities	**(4,388)**	**(11,525)**	**(39,675)**	**(55,588)**
Deferred tax	(168,286)	649,126	3,889,331	4,370,171

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.

The changes in deferred taxes are as follows:

	2012	2011
		Euro
Opening balance	**4,538,458**	**3,889,331**
Tax effect on income recognizes directly in equity	(8,479)	(8,598)
Charged to the income statement (Note 23)	(159,808)	657,724
Closing balance	**4,370,171**	**4,538,458**

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.

Tax loss carryforwards have been offset amounts to EUR 1,354,971 in the current year. The taxable bases pending compensation at December, 31st 2012, totalled EUR 5,573,438.

In 2012 the Company has capitalised the deductions pending application in the amount of EUR 174,845. Of this amount, EUR 101,695 was deductions related to IT projects, EUR 66,521 was double taxation credits and EUR 6,630 was deductions for investments.

b) Other tax receivables and payables

The company has granted two deferments, one of them from the Tax Authorities for the withholdings and the other from the Social Security related to social security contributions. The amounts due over one year showed in non-current liabilities amounts to EUR 46,732 and EUR 320,734.

22. Income and expense

a) Transactions denominated in foreign currency

Transactions carried out in foreign currency are as follows:

Euro	2012	2011
Sales	7,420,081	1,897,334
Services rendered	812,415	819,331
Total	**8,232,496**	**2,716,664**

The breakdown for exchange differences are as follows:

Euro	2012	2011
Arising during the year	5,620	(55,266)
Arising for closing balance	(21,650)	45,289
Total	**(16,030)**	**(9,977)**

b) Turnover

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

Market	2012	2011
Domestic	7%	37%
International	93%	63%
Total	**100%**	**100%**

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

Line	2012	2011
Trademark licenses	18%	25%
Interactive/on line contents	70%	62%
Other	12%	13%
Total	**100%**	**100%**

c) Raw materials and consumables

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

Euro	2012	2011
Raw materials and consumables	28,132	416,352
Total	**28,132**	**416,352**

d) Other operating expenses

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

Euro	2012	2011
Leases	304,763	293,932
Repairs	29,480	54,537
Independent professional services	1,646,860	2,095,163
Insurance	37,126	46,044
Bank fees	22,165	28,975
Advertising and public relations	225,871	632,642
Utilities	81,422	112,683
Other general expenses	263,969	369,140
Other taxes	11,348	10,534
Impairment losses on commercial transactions	79,031	104,917
Losses on commercial transactions	-	1,022,691
Reversal of impairment losses on commercial transactions	-	(20,731)
Total	**2,702,036**	**4,750,528**

e) Staff expenses

Euro	2012	2011
Wages, salaries and similar remun	2,397,185	2,524,948
Social Security	578,242	640,885
Other expenses	70,292	154,073
Total	**3,045,718**	**3,319,905**

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

CATEGORY	Average number of employees	
	2012	2011
	Plantilla media	
	2012	2011
5-YR DEGREE HOLDER	22.62	26.67
3-YR DEGREE HOLDER	4.80	4.81
SR.MANAGER	6.77	6.83
MANAGER 1	0.21	1.52
MANAGER 2	1.85	1.00
OFFICIAL 1	14.68	15.11
OFFICIAL 2	1.76	4.42
ASSISTANT	1.79	2.52
PROGRAMMER	0.83	2.14
OPERATOR	3.40	4.30
OFFICIAL 1	0.37	0.50
Total	**59.08**	**69.82**

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

CATEGORY	2012		2011	
	Men	Women	Men	Women
5-YR DEGREE HOLDER	7.00	9.75	14.00	15.00
3-YR DEGREE HOLDER	3.00	1.00	4.00	1.00
SR.MANAGER	3.68	2.50	4.00	3.00
MANAGER 1	-	-	-	1.00
MANAGER 2	2.00	-	1.00	-
OFFICIAL 1	7.00	-	16.00	5.00
OFFICIAL 2	1.00	-	3.00	-
ASSISTANT	-	1.50	-	2.00
PROGRAMMER	-	-	2.00	-
OPERATOR	2.00	-	4.00	1.00
OFFICIAL 1	-	-	1.00	1.00
Total	**25.68**	**14.75**	**49.00**	**29.00**

f) Other operating revenue

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

Euro	2012	2011
Services rendered to staff	1,470	2,047
Other services	-	3,800,000
Total	**1,470**	**3,802,047**

In 2011 the amount includes in other services corresponds to the amount invoiced for the final settlement due to the completion of the agreement with ITV Global Entertainment company.

23. Corporate income tax and tax situation

The reconciliation between net income and expense for the year and the taxable base is set out below:

Euro

	Income statement			Income and expense recognised directly in equity		
Income/expense for the year			932,131			30,758
	Increases	Decreases		Increases	Decreases	
Corporate Income Tax	328,114	(101,695)	226,419			
Permanent differences	113,458	-	113,458			
Temporary differences:						
arising during the year	-	-	-			
arising from previous years	16,365	-	16,365		(30,758)	(30,758)
Offsetting tax-loss carryforwards			(1,288,373)			

The permanent differences refer to Tax Authorities surcharges in deferment process.

This reconciliation in 2011 was as follow:

Euro

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

Income tax expense is analysed below:

	Current year tax	Income tax paid abroad	Change in equity				TOTAL
			Net charge deferred tax assets			Change in deferred tax liabilities	
			Temporary differences	Tax credits for tax-loss carryforwards	Other credits	Temporary differences	
Charged to the Income Statement To continuing operations	-	(66,612)	-	(338,743)	174,845	4,091	(226,419)
Total	-	**(66,612)**	-	**(338,743)**	**174,845**	**4,091**	**(226,419)**

Income tax expense in 2011 was:

	Current year tax	Income tax paid abroad	Change in equity				TOTAL
			Net charge deferred tax assets			Change in deferred tax liabilities	
			Temporary differences	Tax credits for tax-loss carryforwards	Other credits	Temporary differences	
Charged to the Income Statement To continuing operations	-	(95,100)	-	176,171	484,431	(2,927)	562,624
Total	-	(95,100)	-	176,171	484,431	(2,927)	562,624

The Company capitalised deductions in the amount of EUR 174,845 that had not been capitalised in prior fiscal years. The last year the company capitalised deductions in the amount of EUR 484,481 which were outstanding. The total amount of outstanding deductions capitalised at the end of 2012 is EUR 3,032,399 (Note 21.a).

At the end of the last fiscal year ended, December 31st 2012, the Company had tax loss carryforwards to offset in the amount of EUR 5,573,438.

At December, 31st 2012, the Company's corporate tax returns for the years 2008 to 2011 were open to inspection, as were its tax returns for VAT, withholding taxes, business tax, capital gains tax and non-resident tax returns for the years 2009 to 2012.

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

24. Risks

At December, 31st 2012, the Company had no contingent assets or liabilities. This is due to the advice from our legal department as well as our lawyers because all of them estimate that risk taken by the group is low. At the year-end one of the claims has been won by the company. Now is not yet possible to estimate the economic impact of these events.

25. Director and senior management compensation

a) Remuneration of the members of the Board of Directors

In 2012, the members of the Board of Directors received no remuneration for sitting on the Board.

In 2012 as in 2011, no contributions were made to pension plans or funds for former or current members of the Company's Board of Directors. No such obligations were incurred during the year.

The members of the Company's Board of Directors have received no remuneration in respect of profit sharing or premiums. They received no shares or stock options during the year and nor have they exercised any options and nor do they have any options to be exercised. The Company is committed to the members of the Board, a plan for long-term variable remuneration consisting of the delivery of shares. (Note 19)

b) Compensation and loans to senior management personnel

In 2012, the remuneration received by members of the Board of Directors to carry out tasks of senior management in the Company amounted to EUR 170,000 , the compensation received by other senior management personnel different than the members of the Board of Directors of the Company has earned gross wages totaling EUR 496,423
In 2011 member of the Board of Directors received a total of EUR 637,739 and the senior management staff received a total of EUR 481,874 in remuneration. Number of senior management staff has decreased during 2012.

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

To this end it is noted that the positions held by the members of the Board of Directors on the governing bodies of other group companies are as follows: José María Castillejo Oriol is the

Director of the company Sonocrew, S.L. and is also a member of the Board of Directors of Cake Entertainment Ltd, a Group company. These positions in Group companies are unremunerated. The other members of the Board of Directors do not participate in other companies with similar or complementary type of activity that constitutes the object of the Company.

26. Other related-party transactions

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

Euro	2012		2011	
	Expense	**Income**	**Expense**	**Income**
Jomaca 98, S.L.	120,000	32,026	341,661	9,450
Sonocrew, S.L.	7,000	70,336	-	78,282
Yeguada Floridablanca,S.A	50,000			
Other related parties	5,768			
Cake Entertainment, Ltd		189	11,611	874
Cake Distribution	174,267	466,096		
Total	**357,035**	**568,646**	**353,272**	**88,606**

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

The breakdown of the expenses invoiced by related parties is financial expenses of short term loans EUR 5,768 (Note 13) and the rest of the amount from Company´s business.

The breakdown of the incomes invoiced by related parties is financial incomes of short term loan to Jomaca 98, S.L. EUR 32,026; the total loan amount is EUR 413,218 (Note 11). The other incomes come from Company´s business.

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

<u>Closing balances with related-parties</u>

Euro	2012		2011	
	Debit	**Credit**	**Debit**	**Credit**
Current account with subsidiaries				
Sonocrew, S.L.	223	-	156	-
Producciones y Licencias Plaza de España, S.A. de C.V.	193	-	193	-
Long-term debts with subsidiaries				
Sonocrew, S.L.	-	61,401		-
Advance from trade receivable				
Sonocrew, S.L.	-		-	30,367
Trade receivable				
Sonocrew, S.L.	10,000			
Cake distribution, Ltd	292,429			
Cake Entertainment, Ltd	158,807	-	874	-
Trade payable				
Jomaca 98, S.L.		20,184		
Cake Entertainment, Ltd	-	11,885	-	11,611
Cake Distribution,		171,558		
Yeguada Floridablanca, S.A		50,000		
Short-term credits				
Jomaca 98, S.L.	445,244	-	440,325	-
Short-term loans				
Other related parties		88,111		
Long-term loans				
Other related parties		20,839		

Jomaca 98, S.L, as majority shareholder, has granted guarantees to the Company against financial creditors.

27. Environmental information

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

In fiscal year 2012, there were no major environmental expenditures.

28. Events after the balance sheet date

On January 9^{th} 2013, the Company has proceeded to the purchase of 347,554 own shares at EUR 1.16 per share, having an effect on net equity of Euro 404,187 under the epigraph "Treasury Shares".

29. Auditors' fees

The professional fees for auditing individual and consolidated financial statements for the company totalled EUR 8,144 and EUR 4,000 for other audit services (semi-annual 2012). In 2011 the professional fees charged by Garrido Auditores, S.L. was EUR 8,000.

The Company also paid fees in the amount of EUR 50,558 to Garrido Abogados y Asesores Fiscales, S.L. during the same period. These fees amounted to EUR 32,283 in 2011.

30. Other disclosures

The Group is controlled by Jomaca 98, S.L., which owns 64.71% of the Company's shares, the largest amount possessed by any shareholder.

The parent company, which files its accounts with the Madrid Business Register, has claimed the exemption detailed in article 43 of the Commerce Code and does not file consolidated annual accounts.

Impact of International Financial Reporting Standards in the Annual Accounts.

The article 537 of the of the Corporate Enterprises Act provides that, the companies which have issued securities admitted to trading on a regulated market of any Member State of the European Union and, according to current regulations, only published Individuals Annual Accounts, must inform in the Notes of the main variations that would arise in equity and the profit and loss account if they had applied the International Financial Reporting Standards adopted by the European Union Regulations (IFRS-EU) indicating the evaluation criteria applied.

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

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

Pursuant to the terms of this law, at the end of the year the Company had a balance payable to suppliers in the amount of EUR 1,223,414 which had exceeded the legally-established payment deadline. During year 2012, the Company made payments to suppliers amounting to EUR 1,970,000, which 42% exceeded legal limit. The weighted average term of payment amounts to 170 days.

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

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

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

31. Guarantees

The Company has three guarantees two of which from Avalmadrid SGR in the amount of EUR 200,000 and EUR 2,000,000, both as collateral on the loans taken out with a financial entity in the same amounts (Note 13). The third guarantee with another entity amount of EUR 748,198, whose funds for the pledge of this, have been deposited by a private entity for the Company. This guarantee has been required by Ministry of Industry to obtain Avanza aid (Note 13).

ZINKIA ENTERTAINMENT, S.A.
DIRECTORS' REPORT 2012

Business Performance and Company Situation

In the year 2012 the company has increased turnover by 82% amounting EUR 8,239,438 compared to EUR 4,520,767 last year. The large increase is due to the international expansion of Pocoyo brand. The company is currently in a process of implementation of the global strategies that enable it to achieve the goals outlined in its business plans and undertaking the process of the geographical diversification of sales. Of total turnover only 7.25% comes from the Spanish market compared to 37.30% last year.

It should be note that each company business line has increased incomes over the last year. About to relative weight of each company business line in the total sales amount, licensing & merchandising provides 70.34% so it is the most important of the three main areas. The company expects that it will improve earnings in the advertising area for the coming years. Assuming that, this item is 12% of sales in the current year, Zinkia hopes to increase the total amount and the percentage of sales.

During the year, Zinkia has made a cost reduction process mainly the external services costs. Consequently operating costs have been reduced by the company compared with the year 2011. Thereby other operating expenses have decreased 43% and Staff expenses have decreased 8% comparing these expenses in the last year.

As result of all these factors, there has been a very remarkable improvement in EBIT, from a EBIT of EUR 113,695 in 2011 to a EBIT of EUR 2,109,948 in 2012. It means an increase about 1.756%.

During the previous year, the situation in financial markets continued to be just as restrictive, in terms of access to credit for companies, as has become the trend of recent years, so the Company continues to seek appropriate funding ways can be used for implementation of investment projects. In 2012 the company has granted Project Avanza aid amounts to EUR 2,421,347.

The balance sheet shows a negative Working Capital of 1.3 million euro as at December, 31st 2012, mainly due to investments and the maturity of the debt of the Company. In this sense Zinkia is working on finding appropriate funding sources, both with potential new funders, as with financial institutions with they are already working. Likewise, also are examining all possible options to generate additional liquidity, in every way, so as to generate the necessary financial resources to meet all commitments of the Company and to undertaken investment projects of the Business Plan. At the date of these financial statements the company has regularized all overdue balances with financial entities.

The company's financial position continues to show a rather balanced, with net equity of euro 10,145,677 net worth of debt against a total of euro 10,975,067.

Events after the date of these Financial Statements

Between the date at these financial statements were made, and the date of preparation thereof, no events have occurred that are worthy of mention or have a significant influence, unless the purchase of 347,554 shares of treasury stock that the company held.

Outlook for the Company

For the years 2013 and the following ones, is still expected a substantial increase in the turnover of the Company based on Pocoyo entry into new markets, increase in business areas of audiovisual content selling and advertising, and develop new audiovisual content and brands.

Recovery of the distribution rights of Pocoyo worldwide, also acquisition society Cake Entertainment Ltd, have allowed turnover increase in this year and it is expected to continue this trend over the coming years.

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

Research & Development.

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

Financial Risk Hedging

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

Acquisition of treasury shares

Under the article 262 of the Corporate Enterprises Act and considering the content of Title IV, Chapter VI of that text, the Company has acquired during the year, 36,122 shares, according with the liquidity agreement we signed with Banesto Bolsa, SVB, S.A. which holds the set of agent liquidity Zinkia after our joining the Alternative Investment Market (MAB). Also during the year 2012, alienate 333,986 values of the previously acquired, having obtained a negative result overall in these operations of euro 157,170 registered as a deduction from equity in the Balance. At December 31st 2012 are held by the Company 281,503 shares with a nominal value of euro 28,150, representing 1.15% of share capital.

APPENDIX II

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

IDENTIFICATION OF ISSUER FISCAL YEAR 2012

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
MIGUEL FERNANDO VALLADARES GARCÍA	11.20
JOMACA 98, S.L.	64.710
ALBERTO DELGADO GAVELA	3.58

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

Shareholder or partner	Type of relationship	Brief description

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

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

B – COMPANY MANAGEMENT STRUCTURE

B.1. Board of Directors

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

Maximum number of directors	10
Minimum number of directors	3

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

MEMBERS OF THE BOARD OF DIRECTORS/GOVERNING BODY

Name of director of member of governing body	Representative	Date of last appointment	Title
JOSÉ MARÍA CASTILLEJO ORIOL		26.05.2009	EXECUTIVE DIRECTOR
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
ANGEL-MARTIN ORTIZ ABOGADOS, S.L.	ANGEL-MARTIN ORTIZ BUENO	19.12.2012	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
JOSÉ MARÍA CASTILLEJO ORIOL	CAKE ENTERTAINMENT, LTD	DIRECTOR

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

Salary item	Individual (€'000)	Group (€'000)
Fixed remuneration	170	0
Variable remuneration	0	0
Per diems	0	0
Other	0	0
Total:	170	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
JULIO COVACHO LOPEZ	MANAGING DIRECTOR AND FINANCE DIRECTOR
IGNACIO PASTOR GILI	MANAGING DIRECTOR
MARIA KRISTINA DOOLAN	BRAND AND BUSINESS DEVELOPMENT DIRECTOR
LOREA GARCIA JAUREGUI	GENERAL COUNSEL AND LEGAL & HR DIRECTOR
MARIA ITURRIAGAGOITIA BUENO	HR DIRECTOR
Total senior management remuneration (in thousands of euros)	496

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, if the company's individual and consolidated financial statements for preparation by the Board are previously certified:

No

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 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.	SECRETARY OF THE COMITTEE
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

According to article 12 of the Board of Directors Rules of ZINKIA ENTERTAINMENT, S.A., the Board shall appoint one or more CEO, who could be vested with all or part , forever or temporarily, of the powers vested in the Board of Directors according to the Articles of Association and the law.

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

Number of meetings	3

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

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C. RELATED-PARTY TRANSACTIONS

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

Name or company name of significant shareholder	Name or company name of the Group company or enterprise	Type of relationship	Type of transaction	Amount (in thousands of euros)
JOMACA 98, S.L.	ZINKIA ENTERTAINMENT, S.A.	Contractual	LOAN GRANTED BY ZINKIA ENTERTAINMENT, S.A. TO JOMACA 98, S.L.	27

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

Name or company name of managers or directors	**Name or company name of the Group company or enterprise**	**Type of relationship**	**Type of transaction**	**Amount (in thousands of euros)**
JOMACA 98, S.L.	ZINKIA ENTERTAINMENT, S.A.	Contractual	LOAN GRANTED BY ZINKIA ENTERTAINMENT, S.A. TO JOMACA 98, S.L.	27

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.

2. In addition, the Director must inform of any direct or indirect participation in any other entity or company, both by him/her or by any of the persons included in article 231 of the Revised Text of the Capital Companies Act, when the company has the same, similar, analogue or complementary activity as the Company's activity, and they must inform as well of any title or responsibilities those persons may have within.

3. The conflicts of interest situations in the terms of the above paragraphs shall be included in the Notes to the Financial Statements.

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 2012 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.c 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. For capital increases or decreases 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, can only be validly passed with the favourable vote of two-thirds of the capital present or represented at the General Meeting when on second call there are shareholders which represent at least the 25 % of the capital subscribed with voting rights, but cannot get the 50%.

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

Without prejudice to the provisions of the Capital Companies Act regarding the universal general meeting and the judicial call, the General Meetings of Shareholders shall be called by the governing body.

The board will convene the Annual General Meeting for the meeting necessarily within the first six months of each year. The Board General Meeting will be valid even if called or held outside of term.

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 sixty days of the notarised request being received by the governing body. The governing body must also include the matter or matters stated in the request on the meeting agenda.

Article 7. Announcement of the General Meeting

The call, both of ordinary and extraordinary General Meetings Shareholders shall be announced in the Business Register Paper and the society web page, at least one month in advance to the date fixed for the convened General Meeting, except in case the law settles a higher term. The governing body will analyse the option of releasing the Agenda of the General Meeting Shareholders in more media.

The General Meeting shall be convened by the governing body including the Society's name, if the meeting is Ordinary or Extraordinary, the place, date and hour to attend in first call, the status of the person that signs the call, and the Agenda, in which all the matters to discuss shall be included. The announcement shall include, just in case, the date and hour of the second call meeting. Between first and second call there should be, at least, 24 hours of difference and the explanation that the first call is more probable than the second . In the announcement there should appear all the matters in a clearly manner.

The announcement shall include the reference to the shareholders right to be represented by a third person, even not a shareholder, the requirements and procedures for exercising this right, and the right of information that assist shareholders and how to exercise it.

The board shall include in the notice mention of the specific ways the shareholders may use to exercise or delegate votes, as well as the instructions to do so. The announcement shal also include the timing, form and modes of exercise of the rights of the shareholders who attend the Meeting by electronic or telematic means, if foreseen this possibility.

Shareholders representing at least five percent of the share capital may request a supplement to the convening of a Shareholders General Meeting including one or more items on the agenda. The exercise of this right shall be made by notification which shall be received at the registered office within five days of the publication of the notice.

The complement of the notice shall be published at least fifteen days in advance to the date set for the meeting of the General Meeting, at least, in the same media, including the Official Gazette of Mercantile where the original call or notice has been published.

The lack of publication of the supplement to the notice within the statutory shall be cause for revocation of the General Meeting.

The Company will send the announcement of the notice of meeting, including, where appropriate, any supplement to the call, to the "Mercado Alternativo Bursatil" and any other authority if appropriate, all in accordance with the regulations applicable in each case. The text of the announcement, including its accessories if any, will be published on the page Society web.

The Board of Directors may require the presence of a Notary Public to attend the General Shareholders' Meeting and the minutes of the meeting, who should it when the circumstances are those provided under the applicable legislation.

If the General Meeting duly called, is not held in the first call, and it is not contemplated in the notice the date of the second, the General Meeting should, be announced with the same agenda and the same requirements publication as the first, within fifteen days from the date of the General Meeting not held and at least ten days prior to the date of the meeting.

Article 9. Right to information prior to the General Meeting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Article 10. Attendance rights.

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

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

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

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

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

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

Article 12. Representation

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

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

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

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

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

b. they are issued using remote electronic modes of communication, enclosing an electronic copy of the attendance card and delegation which duly guarantees the proxy being granted and the identity of the issuing shareholder.

Proxies issued in this way shall be permitted when the electronic document granting the proxy contains the legally-recognised electronic signature of the principal or another other form of identification previously authorised by the Board and deemed to adequately guarantee the authenticity and identity of the shareholder granting the proxy.

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

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

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

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

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

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

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

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

Article 22. Right to information during the General Meeting

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

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

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

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

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

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

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

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

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

Article 24. Distance voting.

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

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

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

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

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

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

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

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

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

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

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

Article 25. Voting on proposed resolutions

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

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

Each agenda item will be voted on separately.

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

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

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

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

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

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

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

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

The resolutions passed by the Ordinary General Meeting held on 22 June 2012 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 2011 fiscal year.

Passed with 100% of votes.

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

Passed with 100% of votes.

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

Passed with 100% of the votes.

Four. Amendment of articles 5, 11, 16, 20 and 26 of the Company's Articles of Association for its adaptations to the last legal modifications.

Passed with 100% of the votes.

Five. Modification and adaptation of articles 6 and 7 of the Rules of the General Meeting of Shareholders.

Passed with 100% of the votes.

Six. Approval of the Society web page in accordance with article 11 bis of Capital Societies Act: www.zinkia.com

Passed with 100 of the votes.

Seven. Ratification and appointment of new Directors.

Passed with 100% of the votes.

Eight. 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 2012 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, during 2012 there have been between 6 and 7 Directors, which is within the range recommended by the Unified Code (between 5 and 15 members) and which allows for effective and participative operation. The Articles of Association of ZINKIA ENTERTAINMENT, S.A. establishes a maximum of 10 members, which is also within the range recommended by the Unified Code.

- Composition of the Board of Directors: As of the date of this report, independent and proprietary external directors constitute an ample majority of board members, with five, compared to the one only 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. has one independent director on the Board of Directors.

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

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

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

G. OTHER INFORMATION OF INTEREST

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

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

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

To supplement the information provided in point B.1.2. and to supplement the information included in this document (are up to 31/12/2012) we do inform of the following:

As we already informed in the last Governance Report, on February 29th 2012, the Board of Directors of ZINKIA ENTERTAINMENT, S.A. agreed to accept the resignation of Mr. Mariano Martín Mampaso as a director for personal reasons, and the Board, as set out in the article 244 of the Capital Companies Act, designated by cooptation, and ratified for the statutory term by the General Meeting, as member of the Board of Directors the company Axon Capital e Inversiones SGECR S.A.

On 15 November 2012, Axon Capital e Inversiones SGECR S.A. stepped down as a member of the Board of Director, leaving a vacancy on the Board of Directors.

On 18 December 2012Mr. Miguel Valladares stepped down as a member of the Board of Director. The Board as set out in the article 244 of the Capital Companies Act, designated by cooptation, conditioned to the next General Meeting g, as member of the Board of Directors the company Angel-Martin Ortiz Abogados, S.L, duly represented by D. Angel Martín Ortiz Bueno who accepted the appointment.

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

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

Regarding information provided in point B.1.5, we would like to clarify that in order to give more transparency, the data of all the Company Executives that reported to the CEO during any time of 2012 have been included. In any case, after the appointment of a General Manager, the persons that actually report directly to the CEO as the first management level of the company have clearly decreased.

This Annual Corporate Governance Report was approved by the Board of Directors or governing body at the session held on 04-04-2013.

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

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DECLARATION OR RESPONSIBILITY FOR FINANCIAL REPORTING

The members of the Board of Directors of ZINKIA ENTERTAINMENT, S.A. listed below declare that, to the best of their knowledge, the financial information for the Company, which includes the Individual and Consolidated Financial Statements of ZINKIA ENTERTAINMENT, S.A. and subsidiaries as at the end of the year 2012, formulated by the Board of Directors at the meeting held on April 4th 2013 and prepared according to the applicable accounting principles, offer a true image of the equity, financial situation and results of ZINKIA ENTERTAINMENT, S.A. and subsidiaries and that the Directors' Report includes an accurate analysis of the Company's business results and position, along with a description of the principal risks and uncertainties faced by the Company and subsidiaries.

Madrid, April 4th, 2013

Mr. José María Castillejo Oriol	Mr. Alejandro Ballestero de Diego
Mr. Alberto Delgado Gavela	Mr. Juan José Güemes Barrios
Angel Martin Ortiz Abogados, S.L. represented by Angel-Martin Ortiz Bueno	JOMACA 98, S.L., represented by Mr. Iñigo Mencos Valdés