ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES
Annex to Financial Information 2014
Forecast updating and compliance report

Translation of Financial Statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Notes 1 and 32) in the event of discrepancy the Spanish language version prevails.

FORCAST UPDATING

Given the changes in the sector during the past years mainly due to the world crisis and which are specially linked to the delay in the execution of commercial and production agreements, ZINKIA Entertainment, S.A. (hereinafter, “ZINKIA”, “Parent Company” or “the company”) considered it suitable to review its business plan until 2015, adjusting the timing for the beginning of new productions and the commercial exploitation in new markets.

On the other hand, and with the authorisation of the Insolvency Administrator, at July 2014 Zinkia has transmitted the total of its shares in Cake Entertainment, Ltd. to the up to the minority shareholders of said Company. The transmission of those shares (which represented a majority percentage of 51%) is the consequence of a process launched by the minority shareholders of Cake under the title of “Deadlock Notice”, stipulated in the Shareholders Agreement signed by and between the parties and binding. Such process could only end by the acquisition or sale of the shares held by the other shareholders. And therefore, ZINKIA's investment kept until then in Cake, has not ever been available for sale. The transmission of such investment is the consequence of an internal process among Cake's shareholders. ZINKIA's administrators have considered the transmission of shares as the most favourable option mainly vis-à-vis the Group treasury.

Having in consideration the insolvency situation of ZINKIA, the Company, together with the Insolvency Administrator communicated the operation to the court of the Mercantile nº 8 in Madrid, in case it were necessary or turned to be necessary the corresponding judicial statement according to the insolvency regulations.

The Parent Company analysed the economic and financial impact of said corporate operation, reviewing the estimates for 2014 and 2015 published and updated for the market last month of August 2014.

In the same way, Zinkia has revised the published estimations for 2015.

ZINKIA's Group (hereinafter, “Group”) reviewed Business Plan for 2015 is detailed as follows.

In the previous reviews of ZINKIA's Business Plan it was deemed necessary to temporarily suspend some of the expected productions and to the adapt the production schedule to the current market situation and to the funding sources available.

Consequently, both the strategic and economic goals set by the Group at the time of its incorporation to the Market, have been deferred or had to be changed in time.

However, the Group has always believed in value creation and has therefore sacrificed, whenever necessary, its economic goals in the short term in order to secure a greater future value. During these years ZINKIA has succeeded, among others, in the following self-set goals:

- Recovering the international distribution of POCOYO™, which grants the Group operating and managing freedom which ensures a future growth of incomes in different territories over the poor outcome achieved to date. This shall afford a direct relation with all agents and licensees in every country. Since the actual reversion of the commercial management (2011) facts show revenue coming from different territories that is higher to that of the previous.

- Entering into the United States market from the three most important television platforms. With the support of a commercial agent in the territory and the good audience figures reached both in televisions, where the POCOYO™ is present, and in digital broadcast platforms, lead to the expectation of a very positive outcome in this market in the coming years.

- Entering into the Italian, British, Turkish, Russian and South East Asia, by means of the signing of new trade agency agreements that will represent our interests in those markets.

- Full cover of the Latin American market with a new structure of commercial agents.

- Reactivation of the Chinese market by means of signing one of the most important categories of licensing (toys).

- Launching of a new format of commercialization of the merchandising business line by means of a creation of its own catalogue of POCOYO™ products to be commercially exploited at international level.

The general trend in the sector was another important factor that has resulted in the lowering of the estimates over those published in previous versions of the Business Plan.

As a consequence of the above, and in compliance with Rule 9/2010 from MAB on information to be provided by entities incorporated in small cap trading on the Mercado Alternativo Bursátil, the present document updates the business forecasts presented in section 1.14.1. of the Information Memorandum of Incorporation ZINKIA ENTERTAINMENT SA in July 2009, reviewed at April 2010, April 2011, April 2012, April 2013, April 2014 and April 2014.

Thus section 1.14.1. of said document is modified as follows.

1.14 In the event that, pursuant to the regulations of the Mercado Alternativo Bursátil or the Issuer's will, quantification of forecasts or figures estimations on future income and expenses (incomes or sales, costs, general expenses, financial expenses, amortisations and profit before tax).

The adoption of this type of forecasts and estimations implies the Company's commitment to inform the market, via the MAB, as soon as revenue and costs are likely to differ significantly from expected.

Pursuant to Rule 2/2014 from MAB, ZINKIA's Board of Directors approved on 30th March 2015, with no votes against, a new consolidated Business Plan with the changes in forecasts and estimations for the coming year shown as follows:

1.14.1 2015 Projected Data

This heading shows the financial statements projected for the Group in 2015.

1.14.1.1 Projected Income (2015)

Euro	**2015e**
TOTAL REVENUE	**11,536,299**
SALES	**10,533,259**
Pocoyó	**10,533,259**
Content	2,641,659
Licensing	4,813,091
Advertising	3,078,509
Shuriken School	**-**
Content	-
Otros	**-**
Content	-
Licensing	-
Advertising	
Other revenue	-
OTHER OPERATIVE REVENUE	**1,003,039**

The ZINKIA Group aims at developing and exploiting entertaining brands, through the creation, production, distributions and commercialization of audiovisual and interactive animated content.

The 3 sources of cash generation of the ZINKIA Group are as follows:

- Production and exploitation of audiovisual and interactive content: the Group mainly produces and distributes series, movies, video games and applications, distributed and exploited via multi-platform and type of device.
- Exploitation of brands: by means of signing license agreements in exchange for a payment based on royalties.
- Advertising business: ZINKIA Group proceeds to selling the advertising space available both in ZINKIA's digital platforms as well as in third parties' platforms distributing ZINKIA's content.

STRATEGIC POSITIONING

The main lines in the strategic positioning of the ZINKIA Group are:

- Producing audiovisual and interactive family content, focused on children aged up to 14. Underlining the relevance of entertainment combined with educative elements and with universal values.
- Developing international content.
- Integrating audiovisual and interactive content together with developing brands all of them conceived as part of a single entrepreneurial and commercial planning.
- Producing own content, prioritising within its own catalogue, value and quality over quantity.
- Registration trademarks and designs at national and international level, within the operating classes, and intellectual property rights in the different administrative registries in those countries where business is focused.

MAIN ACTIVITIES

Production and exploitation of audiovisual and interactive content:

The department of audiovisual production in the ZINKIA Group is focused on the development of children animated content. The type of formats exploited by the ZINKIA Group within the line of production of children animated content range from television series to long movies both for cinema and television.

The implementation of this line of business in the production of children animated content has led the ZINKIA Group to count on 4 teams: development, preproduction, production and postproduction. There is always a basic team covering all these needs, and, when a new production starts, teams grow in order to get adapted to each project.

The stages that all audiovisual projects have to go through start with a development stage wherein the object of the project is identified, and the visual and story basic lines of the project are outlined. Later on, during the preproduction stage, work is focused on the plot and script as well as on the development all the elements in detail that are part of the content and that will be used in the stage of production, which is the longest, depending on the type of project, and which includes the biggest team of workforce. Finally, the postproduction stage results in the final product by gathering together and synchronising all the pieces of the work: image, sound, effects, etc.

The Group uses the most advanced technology to produce its audiovisual projects, which affords obtaining a quality that has positioned ZINKIA as a worldwide reference in the animation sector and granted the most important prizes. Also, the ZINKIA is developing its own tools to help its artists and creatives reaching the best results possible.

The business models based on audiovisual productions are mainly:

- Distribution through television chains: both pay channels (pay television) as open television channels (free television), by means of licenses agreements to broadcast the content. There are different broadcast windows, ranging from pay television license firstly, to the open television window, later on.
- Home Video: by means of distributors and licenses of content distribution in the most usual formats (DVD, Blue Ray, etc.) in exchange of a royalty per unit sold.
- Pay per view (PPV) and Video on demand (VOD): the emergence of new formats and supports for the distribution of audiovisual content can be exploited through a new window by means of license agreements with platform distributing content.

As for the distributions and commercialisation of audiovisual content, the ZINKIA counts on a commercial team of its own as well as on the collaboration of agents specialised in the sales of this type of products, agents who perceive a fee representing a percentage on the amount of the closed operations.

With the aim of granting productions a global presence or 360 degrees, and in order to make available to the public contents where they are actually consumed, the ZINKIA Group is also creating, developing, producing and distributing interactive products for consoles, mobile telephones (smartphones), tablets, PCs, Smart TVs or websites, mainly interactive applications (interactive books, games, educational content, etc.) as well as video games and online communities.

Currently, the Group is developing the original design of such products and implements their production via collaboration agreements with companies developers of this type of content, sharing with them the tasks of production.

The distribution and monetization models of this type of products are as follows:

- Free: no income is perceived in exchange of the downloading or acquisition. Application acquisition: one single payment is perceived in exchange of the download or acquisition of the application. Advertising: the application is downloaded or acquired for free but it contains advertisements.
- Freemium or acquisition of contents and additional functionalities from inside the application, which is downloaded for free.

The Group uses all the distributions means for this type of content, all applications are distributed under all these modalities

ZINKIA's own business does not contemplate, for the time being, the commercial exploitation of third parties' content as CAKE used to. That is the reason why, as a part of reviewing the figures resulting from CAKE's exit, ZINKIA has erased from its turnover the heading “Other Contents Revenues”, for this was CAKE's exclusive activity.

ZINKIA has experience in the commercial exploitation and sales to television platforms regarding its own content and, for the time being, it is managing its content independently.

Exploitation of brands

Communication platforms through which audiovisual content is distributed, and prominently "open" television, are the vehicle through which the visibility of productions is generated, resulting in the possibility to exploit them commercially as trademarks. Therefore, brand development is the fundamental aim of the production of animation content, since it is through the commercial exploitation of the brand that Group obtains the vast majority of its income.

ZINKIA grants trademark licenses all over the world, relating to different categories of products among which we can name: toys; books and publishing; clothes; accessories; electronic devices; food; care and hygienic products, etc.

Licenses are granted for a given country or geographical area, for a limited period of time and for a particular category of product. All those terms are established and signed under license agreements which are completed to that aim. The standard type of trademark license has an average duration of 1 to 3 years, and renovation entails the payment of new minimum royalty guarantees.

With the aim of managing the worldwide exploitation of its trademarks, the Group relies on commercial agents who help, in some territories, managing those licenses given their greater knowledge of the local market and stopping the Group from becoming a larger structure. Those agents are paid a fee over the income obtained by the ZINKIA in their territories.

The regular model of income is the payment by licensees of royalties over the net sales, ranging according to the type of product from 4% to 20%. Licensees are granted the exploitation of a trademark regarding a particular type of product, in a given country or geographical area and for a specific period of time. In almost all cases there is a forwarded payment offset against the future revenue, called “minimum royalty guarantee”. This minimum guarantee is set as a percentage over the income detailed in the business plan presented by the licensee and annexed to the license agreement. It usually ranges from 20% to 40%. Licensee shall make the effective payment at once or in instalments. The minimum guarantee serves as effective payment forwarded and as guarantee of the licensee's commitment.

In April 2011, ZINKIA reached an agreement with ITV Global Entertainment Ltd., which ended their economic and commercial relation to the date, and so ZINKIA became the exclusive distributor of all rights and licenses regarding POCOYO™, which is an important milestone for the Group in the commercial exploitation the POCOYO™. From that moment on, the Group can implement worldwide strategies that will make it possible to meet the goals set in the business plans. It also results in the geographical diversification of the income, which affords facing the coming years with a less dependence from some geographical areas.

In the commercialisation and granting of merchandising licenses, Zinkia counts on its own team in the commercial area as well as on specialized agents in the sales of this type of products and who receive as a commission a percentage on the closed deals incomes.

Zinkia has started a new format of commercialization of this business line by creating a catalogue of its own on POCOYO™ products to be commercially exploited at international level. This way, traditional sales are combined with licensing clients to manufacture products while Zinkia receives in exchange a percentage on the direct sales of the POCOYO™ products of Zinkia.

Advertising business

The emergence of new distribution supports for audiovisual and digital content, new formulas to generate income, which did not exist before, have emerged. The online advertising business is producing thousands of millions all over the world and has been growing very high for the last years, so such trend is expected to be maintained in the coming years.

The Group produces income via the advertising business in its own platform in the following ways:

- Own platforms: in its own websites, on-line communities, etc., some advertising space is made available directly, through media agencies and advertisers, to sell ads.

- Third parties platforms distributing audiovisual content from the ZINKIA: in those platforms where content can be visualised, income deriving from advertisements associated to those properties are shared between the platform and the Group.

- Apps for mobile devices: in those cases when advertisement is the option to distribute interactive applications, the income is generated by the different advertising actions inside the application.

The income generated via this means of exploitation is faster than the traditional means of income. This source of income represented in 2014 42% over the total consolidated income of the ZINKIA.

Other income

- Activations (Projects in progress). Activations correspond to staff expenses and other direct operating expenses incurred by ZINKIA in order to develop and produce products and content. This item is related to the development of educational apps.

1.14.1.2 Projected Staff Expenses.

The projected staff expenses establish a difference between the Group's fixed team and the production team, which varies depending on the development of some new product.

The staff expenses have been adjusted taking into consideration CAKE's exit from the Group.

The team estimated for 2014-2015 is as follows:

Average number of employees	2015e
Regular Staff	51
Production Team	27
TOTAL	78

COST OF EMPLOYEES	2015e
Regular Staff	2,650,202
Production Team	1,110,119
TOTAL COST OF EMPLOYEES	3,760,321

- The staff cost related to the estimated production teams for 2015 is related to the project of educational apps development for the United States.

- Given the current situation, there is a basic operating team reduced as much as possible both in number of people as in cost. As to the production team, it is estimated at its minimum necessary to comply with the production of the educational apps above-mentioned.

- Projects in progress are not abandoned, even if they fall out of the time scope, yet their starting date is deferred to years to come when the economic and financial situation shall be suitable.

1.14.1.3 Projected Other Expenses

Other expenses are projected in detail as follows. Commercial fees and the purchase of goods vary depending on sales.

The estimates in this item have been projected considering CAKE's exit from the Group.

Cost of goods sold	2015e
Cost of goods sold	203,900
Purchase of goods	849,021
TOTAL	**1,052,921**
Independent professional services	835,550
Other general expenses	2,752,517
TOTAL	**3,588,067**

1.14.1.4 Projected Amortisation

Depreciation and amortisation of fixed assets have been projected according to the current depreciation policy of the Group, thereby the current depreciation rates used depending on the item of property in question are maintained.

Amortization	2015e
Research and development	1,427,895
Intellectual Property	12,028
Total	**1,439,923**

1.14.1.5 Projected Income Statements

Zinkia	2015e
(€)	
Total Revenue	**11,536,299**
Sales	10,533,259
Other Operating Income	1,003,039
Cost of goods sold	1,052,921
Gross Profit	**10,483,378**
% Gross Profit / Revenue	*91%*
Cost of Employees	3,760,321
Other Operating Expenses	3,588,067
EBITDA	**3,134,990**
% EBITDA / Revenue	*27%*
Amortizations and Depreciations	1,439,923
EBIT	**1,695,067**
% EBIT / Revenues	*15%*
Financial Income	-
Financial Expense	-
Financial P/L	**-**
Impairment and losses on disposals of assets	-
Gains/losses on disposals of assets	**-**
EBT	**1,695,067**
% EBT / Revenue	*15%*
Taxation	508,520
EAT	**1,186,547**

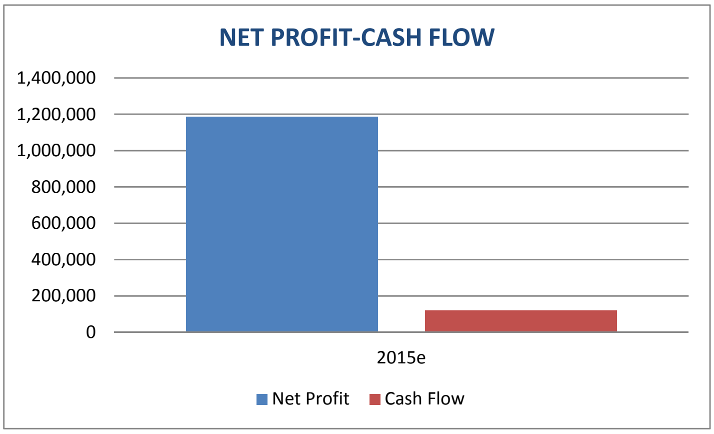
The net turnover, reflecting the Group's commercial activity increases significantly in the projected figures compared to historical period, mainly due to increased exploitation of the brand POCOYO™ in other countries and to the increased weight in the turnover of the income deriving from the online presence and digital rights management of the brands generated.

The income statement shows positive operating margins, which is explained by the turnover and by the lower costs associated to new developments. Also, an important factor is that the marketing strategy for contents and products developed by the Group is focused on the direct negotiation of trademarks with licensees who generate most of the revenue (sales of books, DVDs and toys) and negotiating through agents, for the other licensees. Such business model is based on the collection of royalties which requires a reduced structure and marginal incremental costs once the investment is made. This allows ZINKIA to have a very light staff sales structure and to increase its margins.

The heading "Supplies" has increased considerably compared to historic data mainly due to the purchase of goods. This heading is related to the new format of commercialization mentioned above (the creation of a catalogue of Zinkia's own products). Zinkia will be working upon request of clients and as a consequence this item shall vary upon sales.

1.14.1.6 Cash-flow forecasts

Both the activation costs as the offset in the transfer of investments to income through depreciation imply that the income of ZINKIA shows important differences to the actual cash flow generation. In the same way, the net cash-flow for the year is affected by the payments scheduled in the APAC within the insolvency procedure.



Cash Flow (€)	2015e
EBIT	**1,695,067**
Taxation	**508,520**
Tax credit applied	**508,520**
Amortizations	**1,439,923**
Operations Cash-Flow	**3,134,990**
Intangible Assets	**1,003,039**
Tangible Assets	**60,000**
Capex Investment	**1,063,039**
Increase / decrease in accounts receivable	**126,107**
Increase / decrease in accounts payable	**116,317**
Changes in working capital	**9,790**
	-
Own shares held	-
CF debt service	**2,062,161**
Debenture payment	368,927
Bank borrowing payment	-
Loan payment	1,571,933
Financial P&L	-
Financing cash-flow	**- 1,940,860**
FCF	**121,301**
	1,840,980
Cash and cash equivalents - end of year	**1,962,281**

The cash-flow estimated in 2015 by Zinkia is stable, the company's commercial activity shall generate the necessary resources to ensure the business plan and the compliance with the payment schedule established in the Advanced Proposal of Arrangement with Creditors in the insolvency procedure.

The cash-flow projected by ZINKIA depends mainly on the estimates of the three variables:

- Gross operating profit expected by ZINKIA (See Income Statement)

- Investments in the development of new products and amortisation. This Business Plan includes the development of educational apps. The development of other productions is postponed to later years when the economic and financial situation is appropriate, and so they are beyond the forecast period.

- Investment needs in working capital: Investment in working capital of the Group depends on the evolution of two items: debtors and trade creditors. The projection made by ZINKIA discussed as follows:

  - **Receivables.** This item is conditioned by ZINKIAS accounting policy, which, pursuant to the relevant regulation, recognises as income the minimum royalty guarantee paid in exchange of the license agreements at the time of the signing of the agreement.

  - **Trade receivables.** The evolution of this item is conditioned by the stages in the production of content, since the insolvent debt accumulated regarding commercial creditors would be gathered under the heading “short-term debt”, and so “commercial creditors” would only include the amounts originated from Zinkia's general operational during the extent of the projected period.

Changes in working capital	2015e
Debtors and receivables	126,107
Creditors and payables	116,317
Total	**9,790**

1.14.1.7 Consolidated Balance Sheet

The estimated projections for the balance, take into consideration both the business evolution and the debt maturity derived from the payments plan proposed by ZINKIA during the insolvency procedure in the Advanced Proposal of Arrangement with Creditors.

Balance Sheet (euros)	2015e
(€)	
Intangible Assets	7,996,485
Tangible Assets	68,336
Financial Assets	300
Deferred Taxation Assets	5,656,943
Debtors and receivables	1,440,565
Non Current Assets	15,162,629
Debtors and receivables	3,462,989
Financial Assets	1,115,996
Cash	1,962,281
Period Adjustements	3,393
Current Assets	6,544,659
Total Assets	21,707,289
Issued Capital	2,445,677
Share premium	9,570,913
Own shares held	- 403,841
Reserves	964,622
Retainded Earnings	- 7,541,452
Profits and losses	1,186,547
Shareholders Equity	6,222,466
Deferred income	138,573
Long Term Debt	9,352,829
Deferred taxation liabilities	53,660
	1,262,675
Long Term Liabilities	10,807,737
Short Term Debt	2,526,325
Creditors	762,902
Deferred income	1,387,859
Current Liabilities	4,677,086
Total Shareholders Equity and Liabilities	21,707,289

COMPLIANCE OF FORECAST FOR THE YEAR 2014

This annex to the financial information provided by the Group offers a comparative view of the financial statements estimated for 2014 with the Financial Statements in 2014, by analyzing the possible deviations regarding the same period in the previous year.

1. INCOME STATEMENT

The main deviations in the comparative analysis of the figures in 2014 over the figures in the previous year are detailed as follows. The compliance of the new business plan revised by ZINKIA and published in August 2014 after the transmission of its stake in CAKE is equally analyzed.

The Company has been under arrangement with creditors since last April 7th 2014. Such as it was informed by means of Relevant Fact dated last May 20th 2014, Zinkia presented before the Court of Mercantile nº 8 of Madrid an Advanced Proposal of Arrangement with Creditors (hereinafter, APAC).

The Company expected a positive resolution from the court regarding such APAC in 2014. Such resolution has been delayed and is affecting the Company's business.

It is important to point out that the deviations described in this document do not affect the payment schedule as committed by the Company under the insolvency procedure. Zinkia, according to the results of the business growth and its international expansion, and according to the estimations for the coming years, thinks it will be able to face its payments commitments within the terms established in the APAC by means of the cash-flow generation coming from its operations and without any additional funding.

ZINKIA, in spite of its insolvent position keeps on growing and working in the development of its business lines, increasing its revenues from its activities and minimizing as much as possible the costs derived from such activities.

The increase in the sales compared to last year (7% without considering the figures provided by CAKE in 2013) together with the recurring cost-containment measures, are the positive evidence of the business evolution. However, Zinkia's results have been affected by the recording of a series of impairments and losses that shall be detailed further on.

At December 31st 2013, the ZINKIA Group included the company CAKE in its consolidated statements. ZINKIA's Directors, according to the applicable accounting rules, show as follows not only the figures of the Group at that date, but the figures for the same period without including the figures provided by CAKE, to the end of analyzing the business evolution and the compliance with the forecasts for 2014 in line with the new business plan revised after the transmission of ZINKIA's stake and so that both years can be compared.

The Group transmitted its stake in Cake last July 2014, exiting as a consequence the consolidated scope. The figures supplied by that company until the transmission date, according to the accounting rules, show in Zinkia's results as discontinued operations separately from the Group's own business.

The detailed Income Statement is as follows:

Zinkia	2013 without Cake	2014	Variation	Var. without Cake	% without Cake
(€)					
Total Revenue	**6,257,739**	**6,762,721**	**- 6,286,072**	**504,982**	8.07%
Sales	5,032,309	5,676,748	- 6,146,615	644,439	12.81%
Other revenue	1,225,430	1,085,973	- 139,457	- 139,457	-11.38%
Cost of goods sold	162,279	256,661	- 94,382	- 94,383	58.16%
Gross Profit	**6,095,460**	**6,506,060**	**- 6,380,455**	**410,599**	**6.74%**
% Gross Profit / Revenue	*97%*	*96%*		*-1.20%*	
Cost of Employees	2,084,239	2,368,824	- 394,321	284,585	13.65%
Other Operating Expenses	2,517,013	6,754,338	- 1,552,954	4,237,325	168.35%
EBITDA	**1,494,208**	**- 2,617,103**	**- 4,433,180**	**- 4,111,311**	**-275.15%**
% EBITDA / Revenue	*24%*	*-39%*		*-62.58%*	
Amortizations and Depreciations	1,229,183	1,161,644	- 87,016	- 67,539	-5.49%
EBIT	**265,025**	**- 3,778,747**	**- 4,346,164**	**- 4,043,772**	**-1525.81%**
% EBIT / Revenues	*4%*	*-56%*		*-60.11%*	
Financial Income	31,902	760,494	728,577.04	728,592.04	2283.85%
Financial Expense	1,838,233	746,604	- 1,164,010.07	- 1,091,629.07	-59.38%
Financial P/L	**- 1,806,331**	**13,890**	**1,892,587**	**1,820,221**	**-100.77%**
Gains on disposals of sales	-	1,460			
Impairment and losses on disposals of assets	435,843	492,222	56,379.00	56,378.75	12.94%
Gains/losses on disposals of assets	**- 435,843**	**- 490,762**	**- 54,918.53**	**- 54,918.28**	**12.60%**
EBT	**- 1,977,149**	**- 4,255,618**	**- 2,508,495**	**- 2,278,469**	**-115.24%**
% EBT / Revenue	*-32%*	*-63%*		*-31.33%*	
Taxation	787,240	781,595	20,048	- 5,645	-0.72%
EAT	-1,189,910	**- 3,474,023**	**- 2,488,448**	-2,284,114	-191.96%
Net profit from discontinued operations	204,334	- 563,257			
Minority interest	16,891	-	- 16,891	- 16,891	
Profit attributable to Parent	-1,002,467	**- 4,037,280**	**- 3,034,814**	-3,034,814	-302.73%

Zinkia	2013	2014	Variation	%
(€)				
Total Revenue	**13,048,793**	**6,762,721**	**- 6,286,072**	-48.17%
Sales	11,823,363	5,676,748	- 6,146,615	-51.99%
Other revenue	1,225,430	1,085,973	- 139,457	-11.38%
Cost of goods sold	162,279	256,661	- 94,382	58.16%
Gross Profit	**12,886,514**	**6,506,060**	**- 6,380,455**	**-49.51%**
% Gross Profit / Revenue	*98.76%*	*96%*		
Cost of Employees	2,763,145	2,368,824	- 394,321	-14.27%
Other Operating Expenses	8,307,292	6,754,338	- 1,552,954	-18.69%
EBITDA	**1,816,077**	**- 2,617,103**	**- 4,433,180**	**244.11%**
% EBITDA / Revenue	*13.92%*	*-39%*		
Amortizations and Depreciations	1,248,660	1,161,644	- 87,016	-6.97%
EBIT	**567,417**	**- 3,778,747**	**- 4,346,164**	**765.96%**
% EBIT / Revenues	*4.35%*	*-56%*		
Financial Income	31,917	760,494	728,577.04	2282.73%
Financial Expense	1,910,614	746,604	- 1,164,010.07	-60.92%
Financial P/L	**- 1,878,697**	**13,890**	**1,892,587**	**-100.74%**
Gains on disposals of sales	-	1,460		
Impairment and losses on disposals of assets	435,843	492,222	56,379.00	12.94%
Gains/losses on disposals of assets	**- 435,843**	**- 490,762**	**- 54,918.53**	**12.60%**
EBT	**- 1,747,123**	**- 4,255,618**	**- 2,508,495**	**-143.58%**
% EBT / Revenue	*-13.39%*	*-63%*		
Taxation	761,547	781,595	20,048	-2.63%
EAT	**- 985,576**	**- 3,474,023**	**- 2,488,448**	**-252.49%**
Net profit from discontinued operations		- 563,257		
Minority interest	16,891	-	- 16,891	
Profit attributable to Parent	**- 1,002,467**	**- 4,037,280**	**- 3,034,814**	**-302.73%**

1.1. REVENUE

In the following tables the turnover is specified by business line and compared to 2013 and to the projections for 2014:

	2013 without Cake	12/31/2014	% var. without Cake	2014e	% achieved
Content	1,855,638	1,078,582	-42%	2,712,769	40%
Licensing	1,497,614	2,213,932	48%	4,468,500	50%
Advertising	1,679,057	2,384,234	42%	3,128,601	76%
Total	**5,032,309**	**5,676,748**	**12.81%**	**10,309,870**	**55%**

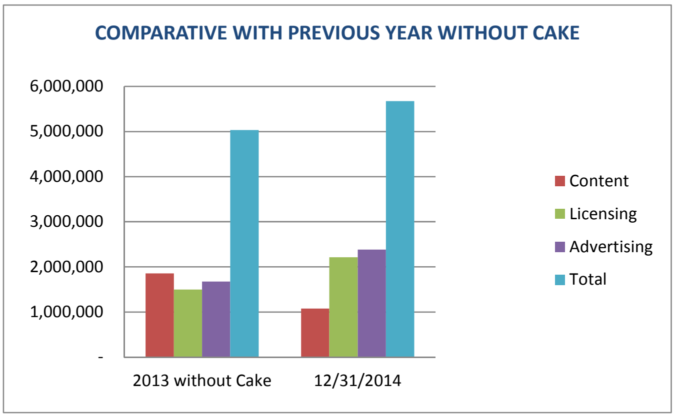
	12/31/2013	12/31/2014	% var	2014e	% achieved
Content	8,646,692	1,078,582	-88%	2,712,769	40%
Licensing	1,497,614	2,213,932	48%	4,468,500	50%
Advertising	1,679,057	2,384,234	42%	3,128,601	76%
Total	**11,823,363**	**5,676,748**	**-51.99%**	**10,309,870**	**55%**

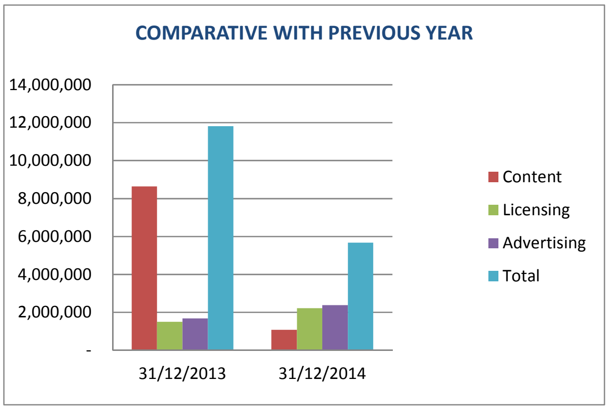
€	2014
Content	19%
Licensing	39%
Advertising	42%
Total	**5,676,748**

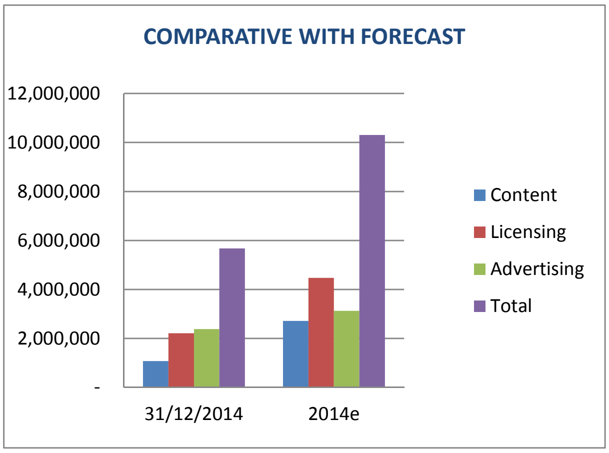
Next tables show the breakdown of revenue by geographic area:

Market	2014	2013
Domestic	26%	11%
Abroad	74%	89%
Total	**100%**	**100%**

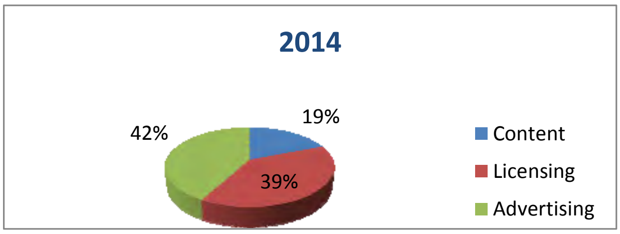
Next tables contain different graphics showing the evolution in the revenue of the Group:

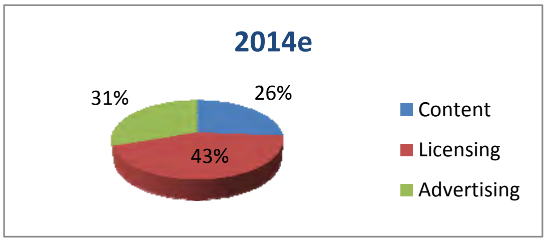






Next tables contain graphics showing the breakdown of revenue by business line:





ZINKIA'S business keeps growing inn spite of being subject to an insolvency procedure since last April 7th 2014, as show the figures of this period compared to those of the previous period without considering the figures supplied by Cake in 2013, so that the evolution of the figures can be comparatively analysed.

In 2014, the Group sales have increased 7% over the same period last year. This increase in the sales is the result of the business development and growth. The evolution regarding the consolidated figures in 2013 which included Cake, show a drop on sales of 52%. As it has been mentioned, we consider that this percentage does not reflect the business evolution during this period because they are not comparable since Cake is not part anymore of the consolidation scope.

As to the compliance of the projections ZINKIA has reached 55% of the estimated sales for 2014. The evolution of figures in 2013 is analysed as follows together with the compliance of the projections for 2014 by business line.

Regarding the content, sales have been 42% inferior to the previous year, representing 40% of the figures estimated for 2014. This item includes sales originated in the commercial exploitation of the audiovisual content in different platforms (television, apps downloads, etc.). In the same way, the item includes the amounts received by the project of apps production for the Government of the USA. The deviation regarding the estimated amounts are focused on this last project. Zinkia is producing these apps in collaboration with a American non profit organisation. The Company is paid for each app delivered according to the production schedule established, and the sale is registered at the time of delivery. In 2014 nine apps were estimated to be delivered. Zinkia's production has been subject to the continuous delays in the referred organisation, which has affected the established production schedule. As a consequence the number of the apps finally delivered has been smaller and therefore also the sales linked to them. The delivery and, therefore, the sales originated in the apps the production of which has been delayed will take place in 2015.

The largest increase in the different business lines is found in the category of Licensing & Merchandising, with an increase of 48% compared to the previous period. This growth is the consequence of the commercial exploitation and the international expansion of the trade name POCOYO™. As to the total projected sales under this category in 2014, 50% of the estimated amount has been already reached.

The insolvency situation the Parent Company is going through and which was expected to be solved in 2014 has affected the company negatively. Zinkia keeps expanding internationally, enlarging its network of partners and trade agents, thus entering new markets. Many negotiations have been affected by the insolvency situation and have been delayed because the positive resolution to the arrangement with the creditors was not issued in the estimated date.

And last, sales regarding advertisement increased a 42% compared to the previous period, thanks to the good results of the advertisement exploitation in online platforms.

This business line represents a 76% of the total sales projected for 2014, Zinkia is managing publicity sales both in third parties platforms as directly. Just like as in the licensing & merchandising category, many of the negotiations have been affected by the insolvent situation and the company has not succeeded in reaching the estimated figures.

In other revenues from the exploitation we find the activated amount of the works made by the Group itself to develop and produce its interactive audiovisual projects.

1.2. EXPENDITURES

ZINKIA is still controlling costs. Regarding the estimates for 2014, the costs have been inferior to the estimates excepting for the recording of the impairment in the group's assets, which has increased considerably the estimated costs.

The staff expenses have increased 14% because the staff was enlarged compared to the previous period (regardless of Cakes' figures in 2013). The recruitment was the minimum possible, based on business needs, and related mainly to the production department, regarding the necessary and indispensable resources to meet the time schedules in the production of the educational apps currently under development. However the costs have been inferior to the original estimates for the year.

Zinkia	2013 without Cake	2014	Var. without Cake	% without Cake	2014e	% achieved
Cost of Employees	2,084,239	2,368,824	284,585	13.65%	2,854,466	82.99%

Zinkia	2013	2014	Variation	%	2014e	% achieved
Cost of Employees	2,763,145	2,368,824	- 394,321	-14.27%	2,854,466	82.99%

"Other exploitation expenses" has increased by 15% compared to the previous period (regardless of Cakes' figures in 2013). Under this heading we find the costs of consultants, assessors and, mainly, trade commissions. As it can be noticed in the following tables, the costs have been lower than those of the previous period and inferior to the estimates. This reduction is the result of the cost-containment above-mentioned. However the total amount of this heading has been superior to 2013 and to the estimates because of the recording of the commercial credit impairment, which had not been foreseen.

Zinkia has recorded in its statements the impairment related to the receivables derived from the agreement signed with CareersDiapers, Llc. Although the commercialization and management of the agreement is actually being executed, the Company has decided as precaution to record such impairment as a consequence of the actual delays in the business development make it likely that the payments deriving from such agreement might be delayed yet again. At present, Zinkia does not have the capacity to estimate when the payments deriving from such agreement shall be received. This is reason why the Directors have decided to record the impairment due to the uncertainty in the terms of such payments.

This above-mentioned impairment record does not affect the Payment Schedule compromised by the Company within the procedure of the arrangement with the creditors, because although there is a chance that the payments of this licensee might be delayed, the Company is capable of complying with the payment commitment according to the forecast for the coming years.

€	2013 without Cake	2014	% var whitout Cake	2014e	% achieved
Independent professional services	667,490	430,376	-36%	1,392,026	31%
Impairment of receivables	23	4,888,481	21254165%	-	-
Other general expenses	1,849,500	1,435,481	-22%	3,476,216	41%
TOTAL	**2,517,013**	**6,754,338**	**168%**	**4,868,242**	**139%**

€	2013	2014	% var	2014e	% achieved
Independent professional services	5,534,434	430,376	-92%	1,392,026	31%
Impairment of receivables	23	4,888,481	21254165%	-	-
Other general expenses	2,772,835	1,435,481	-48%	3,476,216	41%
TOTAL	**8,307,292**	**6,754,338**	**-19%**	**4,868,242**	**139%**

An extract of the financial result, as compared to 2013 and including the 2014 forecasts is included as follows:

Zinkia	2013	2014	Variation	%	2014e	% achieved
Financial Income	31,917	760,494	728,577.04	2282.73%	-	
Financial Expense	1,910,614	746,604	- 1,164,010.07	-60.92%	203,652.89	366.61%
Financial P/L	**- 1,878,697**	**13,890**	**1,892,587**	**-100.74%**	**- 203,653**	**-6.82%**

As to the financial result, financial income is originated in the amortised cost value of the long-term receivables, as well as, to a larger extent, in the positive differences in exchange due to the evolution of the US Dollar.

As to the financial expenses, Zinkia, and as it has already been stated, was declared to be in arrangement with the creditors last April 7th 2014. The Insolvency Act in provision 59 establishes that the accrual of interests, be legal or conventional, is suspended without prejudice to the exceptions under such rule.

The Institute of Accounting and Account Audits, in its decision dated October 18th 2013, explained that it considered that said suspension is merely procedural / insolvency-wise and that, according to the on-going concern, the accrual of such interests should be recorded in spite of the procedure of arrangement with the creditors.

Zinkia therefore is facing a situation wherein the Insolvency Act and the IAAA have established different criteria regarding this particular issue. The Company awaited the positive resolution regarding the APAC that was presented within the procedure of arrangement with the creditors and which does not contemplate the payment of interests (except for those already accrued and unpaid before April 7th following the Insolvency Act), and therefore, additional interests are not recorded. This is the reason why the Parent Company esteemed fit not recording interests after the date of the declaration of the Arrangement with the creditors, and not including such costs in the projections. However, since the arrangement with the creditors procedure is being delayed, the Directors of the Parent Company have decided to record the interests until December 31st 2014 according to the IAAA. Since this fact was not contemplated in the forecasts, there is a deviation and the expenditures are larger than estimated.

Here is an extract of the exceptional result derived from the impairment record and the loss due to the compensation of assets, comported to 2013 and including the 2014 forecasts:

Zinkia	2014	Variation	%	2014e	% achieved
Gains on disposals of sales	1,460			-	
Impairment and losses on disposals of assets	492,222	56,379.00	12.94%	841,564.90	58.49%
Gains/losses on disposals of assets	**- 490,762**	**- 54,918.53**	**12.60%**	**- 841,564.90**	**58.32%**

The Group, on the basis of its yearly projections, analyses at each year-end the estimates of future cash-flows so as to be able to estimate the value of its assets. If the book value of the assets is lower than the estimate of the future cash-flows, assets are impaired. ZINKIA has prudently decided to record the impairment of the Group's financial assets. ZINKIA counts in its assets with a receivable from the company Jomaca 98, S.L., derived from a loan agreement. The Group prudently has decided to record the impairment of the whole receivable given the insolvency procedure of Jomaca. The amount of the impairment has been inferior to the estimated in the budget since the projections included under this heading the loss originated in the transmission of the stake in Cake. This amount, according to the legislation in force, is shown separately in the heading of "Loss and assets" together with the net loss of Cake's departing the Group. Here is detailed as follows:

Zinkia	2013	2014
Incomes	875,366	6,791,054
Expenses	-1,073,441	-6,488,662
P/L	-198,075	302,392
Financial P/L	-884,256	-72,366
EBT	-1,082,332	230,026
Taxation	54,147	-25,693
Net assets	**464,927**	-
Net profit from discontinued operations	**-563,257**	**204,334**

2. BALANCE

2.1. ASSETS

Zinkia	2013	2014	2014e
(€)			
Intangible Assets	**8,511,271**	**8,404,571**	**8,780,439**
Goodwill	**878,364**	**-**	**-**
Tangible Assets	**83,210**	**37,135**	**96,461**
Financial Assets	**128,005**	**300**	**128,005**
Deferred Taxation Assets	**5,319,202**	**6,165,463**	**4,915,261**
Debtors and receivables	**4,069,891**	**1,565,282**	**4,124,510**
Non Current Assets	**18,989,944**	**16,172,750**	**18,044,677**
Debtors and receivables	**5,346,627**	**3,336,883**	**3,389,546**
Financial Assets	**1,489,327**	**1,115,996**	**997,835**
Cash	**1,158,146**	**1,840,980**	**1,942,105**
Period Adjustements	**83,028**	**3,393**	**12,387**
Current Assets	**8,077,128**	**6,297,252**	**6,341,873**
Total Assets	**27,067,072**	**22,470,001**	**24,386,550**

The non-current customers of the Consolidated Balance Asset represent the value of the 12-month maturity balances from the date of the year end (December 31st 2014). Such amount has decreased according to the different maturity dates of the amounts under this item, some of them even become short-term.

The goodwill was related to the Cake Group. It was cancelled as the stakes in that company were transmitted.

The deferred-tax assets were increased as a consequence of the recording at the year end of the period.

The amount under the heading of receivables has been reduced because of Cake's departure from the consolidation scope. The figures in 2013 included the receivables of that company, that in 2014 is not part any more of the group.

The current financial investments decrease as a result of the impairment recorded as above-mentioned.

The other non-current assets and current assets are not significantly modified during the period.

2.2. Liabilities

Zinkia	2013	2014	2014e
Issued Capital	2,445,677	2,445,677	2,445,677
Share premium	9,570,913	9,570,913	9,570,913
Own shares held	- 403,841	- 403,841	- 403,841
Reserves	510,517	964,622	914,476
Retainded Earnings	- 2,042,822	- 3,504,172	- 3,701,910
Profits and losses	- 1,002,467	- 4,037,280	942,527
Translation differences	43,072	-	-
Profit atributable to minority interest	16,891	-	-
Minority interest	321,262	-	-
Shareholders Equity	**9,459,202**	**5,035,919**	**9,767,842**
Deferred income	154,515	138,573	154,515
Long Term Debt	6,900,181	4,027,867	10,167,506
Deferred taxation liabilities	63,994	53,660	63,994
	-	1,262,675	-
Long Term Liabilities	**7,118,689**	**5,482,775**	**10,386,014**
Short Term Debt	4,478,173	7,946,269	774,767
Creditors	5,701,545	2,617,181	3,148,463
Deferred income, short term	309,462	1,387,859	309,464
Current Liabilities	**10,489,180**	**11,951,309**	**4,232,693**
Total Shareholders Equity and Liabilities	**27,067,072**	**22,470,001**	**24,386,550**

Variations in the net equity are due to the results obtained.

The long and short-term debts are part of Zinkia's insolvent debt. Since the APAC has not been solved in 2014 the debt is recorded with the original maturity of each loan, be it at long or short term.
In the 2014 estimates the insolvent situation was expected to be solved and therefore most of the debt would become long-term according to the payment schedule.

The amount under the creditors item was reduced because to Cake's departure from the consolidation scope. Figures in 2013 included the liabilities of that company, but in 2014 Cake is not part of the group anymore.

The heading regarding the accruals has increased compared to last year and regarding the forecasts, and so there is an unforeseen long-term item on the top of the current liabilities. This item is related to above-mentioned project of educational apps. Zinkia invoices the amounts payable for every application, counting on this item as counterpart. According to the accounting rules in force are cancelled against the results statement as the content is delivered. But since the production has been delayed and part of the deliveries are transferred to 2015, there is a pending amount in the balance that is bigger than initially estimated.

Disclaimer

Under no circumstances this document is be understood as an offer to purchase, sell, subscribe for or trade ZINKIA's shares. Any investment decision thereon shall be taken according to the sole discretion of the investor and/or consultants that the investor deems appropriate.

The information contained herein relates primarily to historical data but it can also contain statements or future expectations that, as such, are subject to risks and uncertainties, known and unknown, that could cause the business development of the group to be different from what is hereby stated or inferred, and therefore conditioning their realization.

For a better understanding of the risks that could affect the business, the statements of future and the financial situation and equity, ZINKIA recommends consulting the Information Memorandum of Incorporation to the MAB and the subsequent periodical information sent to the Market.

Regards,

José María Castillejo Oriol
Zinkia Entertainment, S.A.

GARRIDO
AUDITORES

ZINKIA ENTERTAINMENT, S.A.

Audit Report, Financial Statements
and Director´s Report
at December 31, 2014

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.

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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.

STATUTORY AUDITOR´S REPORT ON THE FINANCIAL STATEMENTS

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

Report on the financial statements

We have audited the financial statements completed of Zinkia Entertainment, S.A., comprising the balance sheet at December 31, 2014, the income statement, the statement of changes in equity, the cash flow statement and the explanatory notes for the year then ended.

Responsibility of the board of directors for the preparation of the financial statements

The board of directors are responsible for the preparation of the accompanying financial statements accordingly, so they can provide a fair presentation of the equity, the financial position and the results of Zinkia Entertainment, S.A., in accordance with the regulatory financial reporting framework applicable to the company in Spain, which is identified in Note 2.a of the explanatory notes to the financial statements, and for such internal control as the board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on the accompanying financial statements, based on our audit. We have carried out our audit in accordance with the audit regulations in force in Spain. This regulation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the board of director´s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company´s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the financial statements taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

GARRIDO
AUDITORES

Opinion

In our opinion, the accompanying financial statements for 2014 present fairly, in all material respects, the equity and financial position of Zinkia Entertainment, S.A. at December 31, 2014 and the results of its operations and cash flows for the period then ended, in accordance with the applicable regulatory financial reporting framework and, in particular, with the accounting principles and rules contained therein.

Emphasis paragraphs

We draw attention to what is indicated in note 2.i of the explanatory notes to the financial statements, where is indicated that on April 7th 2014, has been declared the voluntary arrangement with creditors of the company. This fact, along with the rest of factors indicated in the same note is indicative of a significant uncertainty about the company's ability to continue its operations. Nevertheless, the board of directors have prepared the accompanying financial statements on a going concern basis, because they believe that the adoption of the measures described in the note will allow to obtain financial resources and the required agreements to accomplish all of its commitments. This issue does not change our opinion.

Report on other legal and regulatory requirements

The accompanying directors' report for 2014 financial year contains the explanations that the company's directors consider appropriate about the situation of the company, the evolution of their business and other matters, but 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 2014. Our work as auditors was confined to check the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Zinkia Entertainment, S.A. accounting records.

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

David Jiménez Matías
April 13, 2015

ZINKIA ENTERTAINMENT, S.A.

ANNUAL FINANCIAL STATEMENTS AND AUDIT REPORT 2014

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

ZINKIA ENTERTAINMENT, S.A.
FINANCIAL STATEMENTS AT DECEMBER 31st 2014 (In EUR)

ASSETS	Note	2014	2013
A) NON-CURRENT ASSETS		**16,173,709**	**19,129,869**
I. Intangible fixed assets	**5**	**8,404,571**	**8,511,271**
1. Development		4,526,317	5,092,193
3. Patents, licenses, trademarks and similar		3,841,175	3,355,989
5. Computer software		37,079	63,090
II. Property, plant and equipment	**6**	**37,135**	**54,716**
2. Plant and other PPE		37,135	54,716
IV. Non-current investments in group companies and associates	**7 , 8**	**3,006**	**992,164**
1. Equity instruments		3,006	992,164
V. Non-current financial investments	**7 , 11**	**300**	**128,005**
1. Equity instruments		300	26,383
4. Derivatives	**12**	-	3
5. Other financial assets		-	101,619
VI. Tax credits	**21**	**6,163,415**	**5,319,202**
VII. Non-current trade receivables	**7 , 11**	**1,565,282**	**4,124,510**
1. From clients		1,565,282	4,124,510
B) CURRENT ASSETS		**6,274,918**	**3,940,960**
III. Trade and other accounts receivable	**7 , 11**	**3,337,767**	**1,524,007**
1. From clients		3,291,810	1,369,027
2. Clients, group companies and associates		25,348	112,021
3. Sundry receivables		16,243	-
4. Employees		361	21
5. Current tax assets		-	2
6. Other tax credits		4,005	42,935
IV. Current investments in group companies and associates	**7, 11 , 26**	**178**	**476,998**
2. Loans to companies		-	476,666
5. Other financial assets		178	332
V. Current financial investments	**7 , 11**	**1,139,892**	**1,012,661**
1. Equity instruments		149	164
5. Other financial assets		1,139,743	1,012,497
VI. Prepaid expenses		**3,393**	**23,716**
VII. Cash and cash equivalents	**14**	**1,793,688**	**903,578**
1. Cash		1,793,515	903,439
2. Cash equivalents		173	139
TOTAL ASSETS		**22,448,627**	**23,070,829**

Notes 1-32 in the joint memoir are an integral part of the Annual Financial Statements at December 31st, 2014.

ZINKIA ENTERTAINMENT, S.A.
FINANCIAL STATEMENTS AT DECEMBER 31st 2014 (In EUR)

EQUITY AND LIABILITIES	Note	2014	2013
A) NET EQUITY		**5,130,485**	**8,979,829**
A-1) SHAREHOLDER'S EQUITY		**4,995,862**	**8,829,261**
I. Capital	**15**	**2,445,677**	**2,445,677**
1. Registered capital		2,445,677	2,445,677
II. Share premium	**15**	**9,570,913**	**9,570,913**
III. Reserves	**16**	**918,423**	**918,423**
1. Legal and statutory		330,475	330,475
2. Other reserves		587,948	587,948
IV. Treasury stock	**17**	**(403,841)**	**(403,841)**
V. Profit/(loss) carryforwards		**(3,701,910)**	**(2,681,613)**
2. Tax loss carryforwards		(3,701,910)	(2,681,613)
VII. Profit/(loss) for the year	**18**	**(3,833,399)**	**(1,020,297)**
A-2) ADJUSTMENTS DUE TO VALUE CHANGES	**12**	**(3,950)**	**(3,947)**
II. Hedgings transactions		**(3,950)**	**(3,947)**
A-3) GRANTS, DONATIONS AND BEQUESTS RECEIVED	**20**	**138,573**	**154,515**
B) NON-CURRENT LIABILITIES		**5,344,202**	**6,871,332**
II. Non-current payables	**7 , 13**	**4,027,867**	**6,807,339**
1. Debentures and other marketable securities		-	2,238,000
2. Bank borrowings		317,511	555,917
5. Other financial liabilities		3,710,356	4,013,422
IV. Deferred tax liabilities		**53,660**	**63,994**
V. Non current accruals and deferred tax liabilities		**1,262,675**	**-**
C) CURRENT LIABILITIES	**7 , 13**	**11,973,940**	**7,219,668**
II. Current provisions	**24**	**100,000**	**100,000**
III. Current payables		**7,846,269**	**4,253,867**
1. Debentures and other marketable securities		2,517,229	33,049
2. Bank borrowings		1,629,293	1,296,397
5. Other financial liabilities		3,699,746	2,924,421
IV. Current payables with subsidiaries	**7 , 13**	**29,381**	**28,755**
V. Trade an other payables		**2,610,431**	**2,527,583**
3. Sundry payables		2,386,818	2,102,376
4. Wages and salaries pending of payment		1,409	20,114
6. Other tax payables		186,616	405,093
7. Clients advances		35,588	-
VI. Current accruals and deferred income		**1,387,859**	**309,463**
TOTAL LIABILITIES AND EQUITY		**22,448,627**	**23,070,829**

Notes 1-32 in the joint memoir are an integral part of the Annual Financial Statements at December 31st, 2014.

ZINKIA ENTERTAINMENT, S.A.

INCOME STATEMENT FOR THE ANNUAL PERIODS ENDED AT DECEMBER 31ST 2014 (In EUR)

	Note	2014	2013
1. Revenue	22.b	5,667,667	5,290,982
3. Own work capitalised	5	1,024,137	1,209,088
4. Raw materials and consumables	22.c	(220,338)	(162,279)
6. Staff expenses	22.e	(2,368,824)	(2,084,239)
7. Other operating expenses	22.d	(6,787,172)	(2,602,706)
8. Fixed assets amortisation	5 , 6	(1,154,545)	(1,129,183)
9. Allocation of grants and other non-financial assets	20	61,836	16,342
11. Impairment and profit/(loss) on fixes assets disposals		1,460	(435,843)
a) Impairment and losses	5	-	(435,843)
b) Profit/(loss) on disposals and other		1,460	-
12. Other results		(6,874)	(102,990)
A) OPERATING PROFIT/(LOSS)		**(3,782,653)**	**(828)**
13. Financial income		152,208	31,902
14. Financial expense		(747,114)	(1,401,813)
16. Exchange differences	22.a	622,373	(423,580)
17. Impairment losses on disposal of financial instruments	26	(857,740)	(13,333)
B) FINANCIAL PROFIT/(LOSS)		**(830,275)**	**(1,806,824)**
C) PROFIT/(LOSS) BEFORE INCOME TAX		**(4,612,928)**	**(1,807,652)**
23. Corporate income tax	23	779,528	787,355
D) PROFIT/(LOSS) FOR THE YEAR		**(3,833,399)**	**(1,020,297)**

Notes 1-32 in the joint memoir are an integral part of the Annual Income Statement at December 31st 2014

ZINKIA ENTERTAINMENT, S.A.

STATEMENT OF CHANGE IN EQUITY AT THE ANNUAL PERIOD ENDED AT DECEMBER 31st 2014 (In EUR)

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

	2014	2013
A) Profit/(loss) for the year	**(3,833,399)**	**(1,020,297)**
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	(3)	(96)
III. Grants, donations and bequests received	35,750	64,086
IV. Arising from actuarial gains and losses and other adjustments	-	-
V. Tax effect	(8,938)	(19,226)
B) Total income and expense recognised directly in equity	**26,810**	**44,763**
Transfers to income statements		
VI. Change in value of financial assets	-	(9,883)
1. Available-for-sale financial assets	-	-
2. Other income/expense	-	(9,883)
VII. Cash-flow hedges	-	151
VIII. Grants, donations and bequests received	(57,005)	(16,342)
IX. Tax effect	14,251	4,903
C) Total transfers to income statements	**(42,754)**	**(21,172)**
TOTAL RECOGNISED INCOME AND EXPENSE (A + B + C)	**(3,849,343)**	**(996,706)**

Notes 1-32 in the joint memoir are an integral part of the Annual Recognised Income and Expenses at December 31st 2014

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

	NOTES	REGISTERED CAPITAL	SHARE PREMIUM	RESERVES	TREASURY STOCK	PRIOR-YEAR RESULTS	PROFIT/(LOSS) FOR THE YEAR	VALUE ADJUSTMENTS	GRANTS AND DONATIONS	TOTAL
D. 2013, ADJUSTED STARTING BALANCE		**2,445,677**	**9,570,913**	**994,353**	**(403,841)**	**(3,520,531)**	**932,131**	**(4,003)**	**130,978**	**10,145,676**
I. Total recognised income and expense	18	-	-	-	-	-	(1,020,297)	55	23,537	(996,706)
II. Transactions with shareholders										-
5. Trading treasury stock	16, 17	-	-	(185,793)	-	-	-	-	-	(185,793)
III. Other movements in equity	18	-	-	109,863	-	838,918	(932,131)	-	-	16,649
E. 2013, ENDING BALANCE		**2,445,677**	**9,570,913**	**918,423**	**(403,841)**	**(2,681,613)**	**(1,020,297)**	**(3,947)**	**154,515**	**8,979,829**
I. Adjustments due to criteria changes										-
II. Adjustments due to errors										-
D. 2014, ADJUSTED STARTING BALANCE		**2,445,677**	**9,570,913**	**918,423**	**(403,841)**	**(2,681,613)**	**(1,020,297)**	**(3,947)**	**154,515**	**8,979,829**
I. Total recognised income and expense	18	-	-	-	-	-	(3,833,399)	(3)	(15,942)	(3,849,344)
III. Other movements in equity	18	-	-	-	-	(1,020,297)	1,020,297	-	-	-
E. 2014, ENDING BALANCE		**2,445,677**	**9,570,913**	**918,423**	**(403,841)**	**(3,701,910)**	**(3,833,399)**	**(3,950)**	**138,573**	**5,130,485**

Notes 1-32 in the joint memoir are an integral part of the Statement of Total Changes in Equity at December 31st 2014

ZINKIA ENTERTAINMENT, S.A.
ANNUAL CASH FLOW STATEMENT AT DECEMBER 31ST 2014 (In EUR)

A) CASH FLOWS FROM OPERATIONS	NOTES	12/31/2014	12/31/2013
1. Profit before taxes		**(4,612,928)**	**(1,807,652)**
2. Adjustments to profit (loss)		**6,801,142**	**3,458,498**
a) Fixed asset depreciation	5 , 6	1,154,545	1,129,183
b) Value corrections	5 , 8	5,730,486	449,176
c) Provisions variation	20	-	100,000
d) Profit(loss) from fixed asset disposals		(1,460)	-
e) Financial Income		(152,208)	(31,902)
f) Financial expenses		747,114	1,401,813
g) Exchange differences		(622,373)	423,580
h) Allocation of grants		(61,836)	(16,342)
i) Other incomes and expenses		6,874	2,990
3. Change in working capital		**(727,851)**	**266,199**
a) Other current assets and liabilities	7 , 11	(1,813,760)	2,452,705
b) Creditors and other payables		20,323	3,939
c) Creditors and other payables	7 , 13	82,848	(466,045)
d) Other current liabilities	7 , 11 , 21	1,078,396	(938,792)
d) Other non-current assets and liabilities	7 , 11 , 21	(95,658)	(785,607)
4.- Other cash flows from operations		**(169,353)**	**(897,306)**
a) Interest paid		(92,777)	(702,799)
b) Dividends received		-	-
c) Collections (payments) for corporate income tax		(69,705)	(91,947)
d) Other payments (collections)		(6,874)	(102,990)
e) Collections for interests		4	430
5.- Cash flows from operations (1+2+3+4)		**1,291,012**	**1,019,740**
B) CASH FLOWS FROM INVESTMENTS			
6. Paid on investments (-)		**(1,070,220)**	**(2,209,482)**
a) Group companies and associates	7 , 8	(14,485)	(139)
c) Intangible assets	5	(1,024,917)	(1,219,484)
d) Property, plant and equipment	6	(5,346)	(2,610)
e) Other financial assets		(25,473)	(987,249)
7. Amounts collected from divestments (+)		**623,640**	**23,427**
a) Group companies and associates		623,640	-
b) Other financial assets		-	23,427
8. Cash flows from investments (7-6)		**(446,580)**	**(2,186,054)**
C) CASH FLOWS FROM FINANCING ACTIVITIES			
9. Collections and payments on equity instruments		**-**	**(185,793)**
c) Acquisition of equity instruments		-	(404,187)
d) Disposal of equity instruments		-	218,395
10. Collections and payments on financial liability instruments		**(31,913)**	**(266,992)**
a) Issues		-	1,268,182
3. Other payables		-	1,268,182
b) Return and amortisation of		(31,913)	(1,535,174)
1. Bank borrowings		(4,128)	(357,572)
2. Other payables		(27,785)	(1,177,602)
12. Cash flows from financing (9+10+11)		**(31,913)**	**(452,785)**
D) Effect of exchange rate fluctuations		77,592	(9,871)
E) NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)		**890,110**	**(1,628,971)**
Cash and cash equivalents at January, 1st		903,578	2,532,549
Cash and cash equivalents at December, 31st		1,793,688	903,578

Notes 1-32 in the joint memoir are an integral part of the Cash Flow Statement corresponding to 2014.

ZINKIA ENTERTAINMENT, S.A.

NOTES TO THE FINANCIAL STATEMENTS OF 2014
(In EUR)

1. General information

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

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

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

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

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

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

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

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

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

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

According to article 6.1 of the Royal Decree 1159/2010 of September 17th, which approves of the Rules for the Preparation of Consolidated Financial Statements, the Company is the parent of a group of companies (Note 8), and as such, and since the Company has issued securities which are traded on a regulated market in a Member State of the European Union, the Company is presenting its annual consolidated financial statements under the EU-IFRS financial statements standards. These have been prepared by the Directors at the meeting of the Board of Directors held on March 30th 2015.

2. Basis of presentation

a) <u>Regulatory framework of financial information</u>

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

- Spanish Commercial Code and the rest of mercantile laws.

- General Chart of Accounts approved by the Royal Decree 1514/2007 and its Sector adaptations.

- Accounting mandatory rules approved by the ICAC (Spanish Accounting and Audit Institute) developing the General Chart of Accounts and related rules.

- The rest of the applicable Spanish accounting regulations.

b) True and fair view

These interim financial statements have been prepared on the basis of the Company's accounting records and they are presented in accordance with regulatory framework of financial information and related accounting rules so as to present fairly the Company's equity, financial situation and results and accurately cash flow in the cash flow statement, during this year. These annual accounts have been prepared by the Company's Directors shall be subject to the approval of the General Ordinary Meeting of Shareholders, and they are expected to be approved without any modification. On the other hand, the annual accounts for 2013 were approved by the General Ordinary Meeting of Shareholders held on June 26th 2014.

c) Accounting principles

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

d) Critical measurement issues and estimates of uncertainty and relevant judgements applicable to accounting policies

The preparation of the annual financial statements requires the use by the Company management of certain relevant estimates, judgements and hypothesis that might affect the accounting policies adopted as well as the assets, liabilities, revenues, expenditures and their related breakdown.

The estimates and hypothesis are based, among others, in the historic experience and other facts considered reasonable under the circumstances at year-end date, and the result of which forms the basis for estimating the carrying amounts of assets and liabilities that cannot be immediately calculated in any other manner.

The real results could appear in a different manner than was estimated. Estimates and judgements are constantly evaluated.

Some accounting estimates are considered meaningful if the nature of the estimate and the judgement is material and if the impact on the financial position or the operating return is material.

Although some estimates were made by the Company's management and the best possible information available at every end-year, by applying their best estimate and knowledge of the market, it might be that potential future events oblige the Company to change them in the coming years. According to the legislation in force the effects of the change of estimate shall be recorded prospectively under the heading of results.

Next we shall explain the estimates and judgements that might cause a material adjustment to the carrying amounts of assets and liabilities within the coming year.

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

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

d.2) Useful lives property, plant and equipment

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

e) Comparability of information

The Company has included in these Annual financial statements the figures from the previous year as there is no reason why the figures from both years would not be compared.

f) Grouping of items

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

g) Changes in accounting policies

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

h) Correction of errors

There were no corrections of prior period errors.

i) The going concern principle-Negative Working Capital

The financial balance sheet shows a negative Working Capital of EUR 5,699,021 at December 31st 2014 (EUR 3,278,798 at December 31st, 2013), mainly due to the maturity of the largest financial debts pointed in the balance of the Company. The following summarises additional information regarding the steps taken by the Company in order to offset such situation.

i.1) Position of the Company and negotiation processes

As noted at the end of the previous year and in the 2014's Interim Financial Statements published, the Company, despite its business growth, contemplated difficulties in order to meet part of its payment obligations at their expected maturity. Therefore, during 2013, and among the different alternatives considered by the Company, a bond issue was initially conceived as a viable means to obtain additional funding, and thus, on April 18th 2013, Zinkia began before the CNMV the process of enrolment in the official records of the relevant Registration Document of the Company, following Article 92 of the Law 24/1988 on the Securities Market. The Registration Document was approved nearly three months after its submission, on July 4th 2013, date of its official registration by Decision of the CNMV.

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

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

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

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

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

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

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

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

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

- *Change of the writing-off date to maturity, originally scheduled for the third anniversary from the Date of issue, subscription and payment, that is to say November 12th 2013, and setting it on the fifth anniversary from the Date of issue, subscription and payment, that is to November 12th 2015.*
- *Inclusion of the possibility of early writing-off by the Issuer in the first year, that is, on November 12th 2014, who will therefore proceed to pay the corresponding coupon until that date.*
- *Modification of the fixed rate annually payable in the coupons to be paid in 2014 and 2015. The fixed rate changed from 9.75% to 11%.*

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

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

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

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

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

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

On the 7th of April 2014 the judicial decision starting the arrangement with creditors procedure was finally issued. The Comisión Nacional del Mercado de Valores and the Mercantile court number 8 of Madrid (hereinafter, “the court”) itself appoint by virtue of such judicial decision ATTEST INTEGRA S.L.P. as insolvency trustee of the Company.

Such as it was reported in the Annual Accountings of the prior year, the Company was already working at that time in the updating of the Viability Plan and the elaboration of a Payments Plan to be offered to each creditor group. Using both documents and considering the information obtained by the Company in the interviews held by the Company with its creditors during within the 5BIS procedure, the Board of Directors of the Company decided in May 2014 to present an Advanced Proposal of Arrangement with Creditors (hereinafter, “the APAC”) before the court.

This Advanced Proposal of Arrangement with Creditors (APAC) does not entail reductions, reason why it was well accepted among creditors, which at the time of its presentation before the mercantile court actually led to count already on the adherence of some of the main creditors, like financial entities and banks and the Spanish Public Administration, among some others. Also, in the 17th June 2014 took place the Bondholders Meeting wherein bondholders adhered the APAC presented by the Company.

At July 11th 2014 and within the term granted by the court, the Insolvency Administration filed its favourable report on the content of the APAC that was presented by the Company regarding the Payments Schedule and the Plan of Viability.

For all the above reasons at December 31st 2014, the Company expects to achieve a positive resolution to the APAC that was presented. The approval of the APAC by the court would allow the Company to overcome the circumstances it is currently going through, and satisfy its creditors in the terms of said APAC, while relaunching the Company's business development.

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

By means of the judicial decision dated 7th April 2014, the Company was officially declared in arrangement with creditors, and as a consequence, from that date on, and according to the insolvency rules, the Company cannot proceed to pay any amount whatsoever regarding the debts generated prior to the date of the judicial decision. Such debt amounts are considered insolvency debts. This situation of insolvency makes that a very important part of the liabilities of the Company, amounting to some EUR 13,500,000 approximately are is considered as insolvency debt the maturity of which shall be determined by the arrangement finally approved by the court.

i.3) Actions to generate liquidity.

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

In order to solve the deficit revealed in the financial resources, other alternatives for generating additional liquidity are being analysed, while negotiations with potential investors are still being held. The Company, in spite of being subject to an insolvency procedure, is still growing and working on the development of its business, increasing the revenue from its business activities and minimising as much as possible the costs derived from such procedure. Some of the actions taken to generate liquidity are as follows:

- Voluntary application by the Parent Company of entering the procedure of arrangement with creditors to be declared by the suitable court. As it has been mentioned before, all the debts that are previous to the declaration of Insolvency (7th April 2014) are considered insolvency debts and they shall be satisfied according to the payments schedule to be approved by the court. This has permitted the Parent Company to continue in business, facing the recurrent costs (the essential costs) allowing thus savings in the cash flow generation which shall afford the payment of the future payments derived from the arrangement with creditors.

- Increased revenue derived from the international expansion of the brand POCOYO and the increase in the sales related to the online presence and the digital rights management, which thus diversify the cash generation coming from different countries and different lines of business areas.

  Even though the Parent Company is under the procedure of arrangement with creditors, the Group has increased its turnover compared to 2013. The commercial exploitation of content via the purchase of publicity in platforms of third parties (of the streaming type) has increased by 44% compared to 2013. The average term for the payment of such sales is 45 days and therefore such increase has helped improve the Company's liquidity.

- Zinkia is continuing its policy of cost reduction by binding costs to the generation of income to the possible extent. Fixed costs are particularly kept as low as possible and fixed trade commissions have been replaced with success fees based exclusively on percentages on the sales actually achieved. This point will favour the generation of liquidity very positively.

- At present, and in spite of being subject to an insolvency procedure, the Company is still in the process of seeking funds to develop its business plan, analysing possible alternatives at its disposal.

However, it is important to stress that the Company has elaborated a viability plan based exclusively on its own capacity to generate income without considering external funding. This plan has been accepted by the insolvency administrator, which backs up the forecasts of cash-flow generation to comply with the payment milestones proposed, while backing up, as well, the accomplishment of the going concern principle.

These activities are further detailed in the Director´s report of the Company.

The Directors of the Company consider that, in case the Advanced Proposal of Arrangement is approved by the court, this fact, together with the rest of the activities that are being carried out, will lead the Company to obtain the financial resources and the necessary agreements to fulfil all of its obligations.

3. Accounting policies

3.1 Intangible assets

a) Research and development expenses

Research expenditure is recognised as an expense when incurred. Development costs incurred in projects are recognised as intangible assets when it is probable that the project will be carried out considering its technological and commercial feasibility, there are sufficient technical and financial resources to complete it, the costs incurred may be measured reliably and a profit is likely to be generated.
If an asset's carrying value is greater than the estimated recoverable amount, the carrying value is written down immediately to the recoverable amount (Note 3.4).

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

b) Licenses and trademarks

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

c) Computer software

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

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

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

3.2 Property, plant and equipment

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

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

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

The cost of major repairs is capitalised and depreciated over the estimated useful life of the asset, while recurring maintenance costs are charged to the income statement in the year in which they are incurred.
Depreciation of property, plant and equipment, with the exception of land, which is not depreciated, is calculated systematically using the straight-line method over the assets' estimated useful lives based on the actual decline in value brought about by operation, use and possession. Estimated useful lives are as follows:

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

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

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

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

3.3 Interest costs

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

3.4 Losses due to impairment of non-financial assets

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

3.5 Financial assets

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

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

At least once a year at the end of the year, the necessary value adjustments are made to account for impairment when there is objective evidence that no receivables will be collected.

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

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

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

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

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

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

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

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

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

Impairment is considered permanent whenever there is a drop of more than 40% in the market value of the asset, or if it has declined for over one year and a half period with no recovering.

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

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

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

3.6 Financial derivatives and hedge accounting

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

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

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

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

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

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

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

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

3.7 Equity

Share capital consists of ordinary shares.

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

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

3.8 Financial liabilities

a) Creditors and payables

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

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

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

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

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

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

c) 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 management upon initial recognition for inclusion in this category due to this recognition reduces accounting mismatches or these liabilities are included in a group whose performance is measured at fair value according to an informed strategy.

3.9 Grants received

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

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

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

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

3.10 Current and deferred taxes

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

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

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

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

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

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

3.11 Severance pay

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

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

3.12 Provisions and contingent liabilities

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

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

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

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

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

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

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

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

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

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

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

3.14 Leases

a) When the Company is lessee – Finance leases

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

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

b) When the Company is the lessee – Operating leases

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

3.15 Foreign currency transactions

a) Functional and presentation currency

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

b) Transactions and balances

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

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

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

3.16 Transactions between related parties

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

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

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

b) For transactions between other related parties, business assets are valued at book value before transaction and so are reflected in individual financial statements.

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

3.17 Share-based payment transaction

The Company has committed to certain senior management employees, a plan for long-term variable remuneration consisting of the delivery of shares. At the time that will occur the necessary conditions to execute that plan, the Company will recognise 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 recognise, will be valued according to the fair value of the equity instruments granted, referring to the date of the concession agreement. Those transactions settled with equity instruments that do result in goods or services other than those rendered by employees are valued, if it can be estimated reliably, the fair value of the goods or services on the date they are received. If the fair value of the goods or services received cannot be estimated reliably, goods and services received and the increase in equity will be valued at fair value of the equity instruments granted, referring to the date on which the company obtains the goods or the counterpart renders service.

4. Financial risk management

4.1 Factors of financial risk

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

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

a) **Market risk**

(i) *Foreign exchange risk*

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

At December 31st 2014, approximately 56% of the Company's turnover is generated in countries whose local currency is not euro, 54% represents U.S. dollar and the remaining 2% represents other currencies. At December 31st 2013 the percentage of revenue from countries whose local currency is not euro raised to 68%, out of which 67% represented U.S. dollar. Zinkia has a bank account in U.S. Dollars used to receive receipts and order payments in that currency. The Company currently has no hedge mechanism against fluctuations in currency exchange rates. Therefore, Zinkia is exposed to fluctuations in exchange rates derived from the development of its activities in various countries outside the euro environment in which it operates, as well as from the potential changes that may occur in the various currencies in which the Company maintains its commercial debt. If the Company's turnover in other currencies grows, the Company's exposure to exchange rate fluctuations shall increase.

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

The exchange rate between the currency of the various countries where the Company operates and the euro has been subject to substantial fluctuations in recent years and, in the future, they could continue oscillating. At December 31st 2014, the impact of the exchange rates on the net financial income was a gain of EUR 622,373 although the net financial income of the Company at the end of the present period is a loss of EUR 830,275. At December 31st 2013, the impact of the exchange rate on the net financial income was a loss of EUR 423,580 which represented approximately 23% of the financial income.

Financial assets and liabilities detailed in foreign currency as well as the transactions in foreign currency can be found in Notes 11, 13 and 22 respectively.

(ii) *Price risk*

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

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

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

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

At December 31st 2014, as we have mentioned above, the whole of the Company's debt is awaiting the positive outcome of an arrangement with its creditors, be it the Advanced Proposal of Arrangement presented by the Company or be it a different proposal presented by the creditors, and which will establish the new conditions to which the debt shall be subject, reason why the Company cannot, at December 31st 2014, classify its debt according to the different types of interest rates. At the end of the previous year, 82% of the total debt of the Company was referred to fixed interest rates. At the end of the previous year, the average rate of the debt was 6.51 %.

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 scenes, 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. Scenes are only simulated for liabilities representing the most significant interest-bearing positions.

b) Credit risk

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

The Company considers there is no meaningful credit risk over its financial assets.

To carry out its business activities, the Company requires the raising the necessary financial resources to ensure the development of its projects and the growth of its business. The Company has financed its investments primarily through credits and loans from financial institutions, capital and debt securities issues. At December 31st 2014, net financial debt (total financial debt minus "Cash and equivalents") of the Company amounts to EUR 10,080,448. At December 31st 2013, this amount raised to EUR 10,157,628.

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

To the Company in particular, this situation has worsened further due to the difficulties in generating the cash flows required for the payment of its debts in the short term. The negative working capital of the Company makes it difficult to obtain funds for its business development and reduces the refinancing possibilities.

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

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, keeping funds available through sufficient committed credit facilities and having the ability to close out market positions. Given the current situation of credit restrictions in the markets as stated in the above paragraph, lack of liquidity is a pressing problem for growing businesses such as Zinkia.

Such as indicated in Note 2i), the Company is currently facing an arrangement with creditors, and the actions described in Note 2i) are being implemented.

The classification of assets by contractual maturity dates is shown in Note 7.2. Liabilities are shown in the balance such as it would correspond to their contractual maturity but these maturities are not detailed because such contracts are left void and depend on the approval of the Advances Proposal of Arrangement with Creditors, and therefore detailing their maturity lacks any sense.

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 12/31/2013	Additions	Disposals or reductions	Transfers	Balance at 12/31/2014
Cost					
Research and development	5,775,021	1,024,137	-	(1,590,012.46)	5,209,145
Intellectual property	13,662,680		-	1,590,012.46	15,252,692
Computer software	564,539	780	-		565,319
Total	**20,002,240**	**1,024,917**	**-**	**-**	**21,027,157**
Accumulated amortisation					
Research and development	(246,985)	-	-	-	(246,985)
Intellectual property	(10,306,691)	(1,104,826)	-	-	(11,411,517)
Computer software	(501,449)	(26,791)	-	-	(528,240)
Total	**(11,055,125)**	**(1,131,618)**	**-**	**-**	**(12,186,743)**
Impairment					
Research and development	(435,843)	-	-	-	(435,843)
Total	**(435,843)**	**-**	**-**	**-**	**(435,843)**
Total	**8,511,271**	**(106,701)**	**-**	**-**	**8,404,571**

Euro	Balance at 12/31/2012	Additions	Disposals or reductions	Transfers	Balance at 12/31/2013
Cost					
Research and development	6,351,594	1,209,088		(1,785,661)	5,775,021
Intellectual property	11,877,019		-	1,785,661	13,662,680
Computer software	516,370	10,396	-	37,773	564,539
Intangible assets advances	37,773		-	(37,773)	-
Total	**18,782,756**	**1,219,484**	**-**	**-**	**20,002,240**
Accumulated amortisation					
Research and development	(246,985)		-	-	(246,985)
Intellectual property	(9,237,576)	(1,069,115)	-	-	(10,306,691)
Computer software	(465,533)	(35,916)	-	-	(501,449)
Total	**(9,950,094)**	**(1,105,031)**	**-**	**-**	**(11,055,125)**
Impairment					
Development		(435,843)	-	-	(435,843)
	-	**(435,843)**	-	-	**(435,843)**
Total	**8,832,662**	**(321,390)**	**-**	**-**	**8,511,271**

The rises and falls registered during 2014 and 2013 are mainly based on fixed assets operations for new developments.

Development expenses

Development costs capitalised relate to the following projects:

2014

Euro				
Project	**Cost**	**Acumulated amortisation**	**Impairment Losses**	**Net value**
Developed by the company				
Work in progress	4,962,160	-	(435,843)	4,526,317
Completed projects	246,985	(246,985)	-	-
	5,209,145	**(246,985)**	**(435,843)**	**4,526,317**

2013

Euro				
Project	**Cost**	**Accumulated Amortisation**	**Impairment Losses**	**Net value**
Developed by the company				
Work in progress	5,528,036		(435,843)	5,092,193
Completed projects	246,985	(246,985)		-
	5,775,021	**(246,985)**	**(435,843)**	**5,092,193**

In 2013 the Company had impaired some projects since it was not possible to determine whether it was going to be able to generate future cash flows and thus be economically successful.

The total amount of the development costs that are recorded as income in the profit and loss account during 2014 amounts to EUR 1,024,137 (EUR 1,209,088 in 2013).

Industrial property rights

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

During 2014, transfers to Industrial Property amounted to EUR 1,590,012 which corresponds to the completion of applications (apps).

Capitalised financial expenses

No financial expenses were capitalised during 2014. The same situation as in 2013.

Intangible assets located abroad

At December 31st 2014, the Company had no intangible asset investments located outside of Spain. The same situation as in 2013.

Fully-amortised intangible assets

At December 31st 2014, there are intangible fixed assets, with an accounting cost of EUR 10,794,125 still in use and fully amortised. These intangible assets correspond to software and audiovisual projects.

At December 31st 2013 there were intangible fixed assets with an accounting cost of EUR 10,746,256 still in use and fully amortised. These intangible assets correspond to software and audiovisual projects.

Assets subject to guarantees and ownership restrictions

At December 31st 2014 no intangible assets are subject to ownership restrictions or have been pledged to secure liabilities. At December 31st 2013 the situation was the same.

Insurance

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

Grants received in relation to intangible assets

The Company has not received during 2014 any amount as exploitation grant related to the development of its intangible assets. The same situation for the same period in the previous year.

The Company received in 2013 capital grants amounting to EUR 35,750 for the development of the project Moving Pocoyo, and amounting to EUR 48,777 for the development of the project Zinkia Croupier. These grants are subject to the guarantee of complying with a series of requirements imposed by the respective Ministries in charge of each grant, and therefore the Parent Company, out of prudence, shall not transfer such amounts to its equity until it has actually complied with all the requirements and the amounts can be considered as non returnable.

At November 2013 the Company was officially informed by the Ministry of Education, Culture and Sports that the grant amounting to EUR 60,000 which had been granted the previous year to the Company for the development of the project Zinkia family & Kids IPTV had been recognised as definitive and so it was finally considered as non returnable.

In 2014 the Company was officially informed by the Ministry of Education, Culture and Sports that the grant amounting to EUR 35,750 above-mentioned (Note 20) had been recognised as definitive. And so it is finally considered as non returnable and is included as the Company's equity herein.

6. Property, plant and equipment

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

Euro	Balance at 12/31/2013	Additions	Disposals or reductions	Transfers	Balance at 12/31/2014
Cost					
Machinery	31,689	-	-	-	31,689
Other equipment	38,198	-	-	-	38,198
Furnishings	76,062	235	-	-	76,297
Data-processing equipment	158,690	5,111	-	-	163,801
Other PPE	28,444	-	-	-	28,444
Total	**333,080**	**5,346**	**-**	**-**	**338,428**
Accumulated amortisation					
Machinery	(31,530)	(110)	-	-	(31,640)
Other equipment	(32,137)	(1,525)	-	-	(33,662)
Furnishings	(56,419)	(4,847)	-	-	(61,267)
Data-processing equipment	(142,356)	(13,405)	-	-	(155,762)
Other PPE	(15,922)	(3,040)	-	-	(18,962)
Total	**(278,364)**	**(22,927)**	**-**	**-**	**(301,293)**
Impairment	-	-	-	-	-
Total	**54,716**	**(17,582)**	**-**	**-**	**37,135**

Euro	Balance at 12/31/2012	Additions	Disposals or reductions	Transfers	Balance at 12/31/2013
Cost					
Machinery	31,689	-	-	-	31,689
Other equipment	38,198		-	-	38,198
Furnishings	76,062		-	-	76,062
Data-processing equipment	156,080	2,610	-	-	158,690
Other PPE	28,444	-	-	-	28,444
Total	**330,470**	**2,610**	**-**	**-**	**333,080**
Accumulated amortisation					
Machinery	(31,405)	(125)	-	-	(31,530)
Other equipment	(29,923)	(2,214)	-	-	(32,137)
Furnishings	(51,606)	(4,812)	-	-	(56,419)
Data-processing equipment	(128,193)	(14,162)	-	-	(142,356)
Other PPE	(13,084)	(2,838)	-	-	(15,922)
Total	**(254,212)**	**(24,152)**	**-**	**-**	**(278,364)**
Impairment	-	-	-	-	-
Total	**76,258**	**(21,542)**	**-**	**-**	**54,716**

Impairment losses

During 2014 no losses due to the impairment of property, plant and equipment were recorded. At December 31st 2013 the situation was the same.

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

During 2014 no revaluations of fixed assets were recorded. At December 31st 2013 the situation was the same.

Property, plant and equipment located abroad

At December 31st 2014 and in 2013, the Company recorded the following investments in property, plant and equipment located at its Beijing offices:

				2014
Fixed assets	**Cost**	**Accumulated amortisation**	**Impairment**	**Carrying value**
Furnishings	7,001	(6,172)	-	829
Data-processing equipment	10,571	(10,571)	-	-
	17,572	(16,743)	-	829

				2013
Fixed assets	**Cost**	**Accumulated amortisation**	**Impairment**	**Carrying value**
Furnishings	7,001	(5,418)	-	1,583
Data-processing equipment	10,571	(10,571)	-	
	17,572	(15,989)	-	1,583

Capitalised financial expenses

In 2014 no financial expenses associated to property, plant and equipment were capitalised. At December 31st 2013 the situation was the same.

Fully-depreciated assets

At December 31st 2014 the Company has fully depreciated assets still in use amounting to EUR 230,649.

	2014	2013
Machinery	30,811	30,811
Data-processing equipment	134,419	104,594
Furnishings	39,052	33,553
Other PPE	26,367	23,664
	230,649	**192,622**

Property, plant and equipment subject to guarantees

At December 31st 2014 no property, plant and equipment were subject to ownership restrictions or had been pledged to secure liabilities. At December 31st 2013 the situation was the same.

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 209,275 (EUR251,330 in 2013). At December 31st 2014, the Company has not non-cancellable operating leases. At December 31st 2013 the situation was the same.

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 2014 and 2013 the Company has not received capital grants in relation to property, plant and equipment.

7. Analysis of financial instruments

7.1 Analysis by category

The carrying value of each category of financial instruments set out in the standard on accounting and measurement of “financial instruments”, except for investments in the equity of group companies, jointly-controlled entities and associates (Note 8), is as follows:

	Euro					
	Non-current financial assets					
	Equity instruments		Debt securities		Credit facilities, derivatives, other	
	2014	2013	2014	2013	2014	2013
Available-for-sale financial assets	300	26,383	-	-	-	-
Loans and receivables (Note 11)	-	-	-	-	1,565,282	4,226,132
Total non-current financial assets	**300**	**26,383**	**-**	**-**	**1,565,282**	**4,226,132**
	Activos financieros a corto plazo					
	Instrumentos de patrimonio		Valores representativos de deuda		Créditos, derivados, otros	
	2014	2013	2014	2013	2014	2013
Assets held for trading	149	164	-	-	-	-
Loans and receivable (Note 11)	-	-	-	-	4,473,684	2,970,564
Total current financial assets	**149**	**164**	**-**	**-**	**4,473,684**	**2,970,564**
Total	**449**	**26,548**	**-**	**-**	**6,038,966**	**7,196,696**

	Euro					
	Non-current financial liabilities					
	Bank borrowings		Debentures an other marketable securities		Derivatives, other	
	2014	2013	2014	2013	2014	2013
Borrowings and payables (Note 13)	317,511	555,917	-	2,238,000	3,710,356	4,013,422
Hedging derivatives (Note 12)					-	-
Total non-current financial liabilities	**317,511**	**555,917**	**-**	**2,238,000**	**3,710,356**	**4,013,422**
	Current financial liabilities					
	Bank borrowings		Debentures		Derivatives, other	
	2014	2013	2014	2013	2014	2013
Borrowings and payables (Note 13)	1,629,293	1,296,397	2,517,229	33,049	6,152,943	5,075,666
Total current financial liabilities	**1,629,293**	**1,296,397**	**2,517,229**	**33,049**	**6,152,943**	**5,075,666**
Total	**1,946,804**	**1,852,314**	**2,517,229**	**2,271,049**	**9,863,298**	**9,089,088**

At December 31st 2014 the Company has a deposit of restricted availability related to the issuance of bonds amounts to EUR 209,937.

Loans and long-term receivables relate mainly to an account receivable from Hispanic Information & Telecommunications Network which amounts to EUR 1,262,674 related to the invoicing under the terms of the agreement (see long-term accruals in Note 13). This amount includes the valorisation at amortised cost which entails a loss of the receivable account of EUR 63,411.

At December 31st 2014 the Company finds itself in an arrangement with creditors procedure, and therefore, as discussed in note i2) herein, nearly almost the whole of the Company's liabilities is subject to the arrangement with creditors procedure and so the Company hopes for a positive outcome of the APAC it presented in order to face the payment of the whole of the debt.

7.2 Analysis by maturity

The procedure of the arrangement with creditors makes it impossible to analyse liabilities by their maturity since, as it has been mentioned above, out of the total liabilities of the Company, approximately EUR 13,500,000 represents the Company's debt subject to the arrangement with the creditors, the maturity of which shall be determined by the arrangement finally approved.

As to the financial assets they are analysed by maturity as follows:

	Euro					
	Financial Assets					
	2015	2016	2017	2018	Años Posteriores	Total
Other financial investments						
-Loans and receivables	4,473,684	1,468,713	90,961	5,608	-	6,038,966
Total	**4,473,684**	**1,468,713**	**90,961**	**5,608**	**-**	**6,038,966**
Total	**4,473,684**	**1,468,713**	**90,961**	**5,608**	**-**	**6,038,966**

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

a) <u>Shareholdings in Group companies</u>

The information on group, jointly-controlled and associate companies at year-end 2014 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%	-

Given the changes in the companies currently part of the group during 2014, we show that the situation at December 31st 2013 was as follows:

		% 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.

In 2013, the Parent Company has impaired 100% of the investment in Producciones y Licencias Plaza de España, S.A. de C.V. At December 31st 2014 Producciones y Licencias Plaza de España, S.A. de C.V. is under the final stage of liquidation.

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. The company Cake Entertainment Ltd, is the head of a group of companies consisting of three subsidiaries, Cake Distribution Ltd, Cake Productions Ltd. and HLT Productions BV.

In July 2014 the Company, with the authorisation of the Insolvency Administration, transmitted the whole of its shares in Cake Entertainment, Ltd. to those who up to then were the minority shareholders. The transmission of those shares (which represented a majority percentage of 51%) is the consequence of a process launched by the minority shareholders of Cake under the title of “Deadlock Notice”, stipulated in the Shareholders Agreement signed by and between the parties and binding. Such process could only end by the acquisition or sale of the shares held by the other shareholders. And therefore, Zinkia's investment kept until then in Cake, has not ever been available for sale. The transmission of such investment is the consequence of an internal process among Cake's shareholders.

Cake's minority shareholders, considered the Parent Company's situation, had attempted previously to buy Zinkia's shares. That offer was rejected by the Company for it was considered to be completely out of the market.

The Company, considering such offer, and in order to protect the value of its assets, considered as a good option acquiring the remaining shares of Cake Entertainment from its minority share holders. Yet the Company's current situation made it impossible for it to offer a reasonable price to the minority share holders for their corresponding shares in Cake Entertainment. The acquisition offer that Zinkia was able to offer to Cake's minority share holders without risking its commitments of future payments was under the reasonable price of such shares. Given that this “Deadlock Notice” makes offers binding for the parties, the minority share holders of Cake Entertainment increased the value of the offer until it overpassed slightly the amount offered by the Company.

All things considered, the situation was analysed and both Zinkia and its Insolvency Administrator considered that accepting the offered launched by the minority share holders guaranteed in the best possible way the rights of Zinkia's creditors as well as those of the very insolvent Company, since:

- The increase in the offer of the minority share holders and the current insolvency situation together with the current insolvency situation and other considerations stated further on, it was considered that the income in the cash-flow of the amount offered by the minority share holders was less risky for the creditors of Zinkia and for Zinkia itself, of all possible scenarios and, as a consequence, the offer was accepted (the acceptance always subject to a possible judicial intervention).

- The “Deadlock” process could only end with the acquisition or a sale of the shares that day, according to the best offer. The process, according to English law, is binding and cannot be stopped.

- It was not possible matching the conditions of the offer launched by the minority shareholders.

- The non-acceptance of the minority shareholders offer would have led Zinkia to a scene of absolute uncertainty wherein its cash-flow could have been seriously at risk and so would its future viability.

Thus, Zinkia has transmitted the whole of its shares in Cake Entertainment, Ltd. to the up to then minority shareholders. The transmission of such shares (which represented a majority percentage of 51%) represents for the Company a loss of approximately EUR 365,518.

Having in consideration the insolvency situation of Zinkia, the Company, together with the Insolvency Administrator communicated the operation to the court of the Mercantile nº 8 in Madrid, in case it were necessary or turned to be necessary the corresponding judicial statement according to the insolvency regulations.

Currently the only company of the Group in which the Company has a stake is not listed.

At December 31st 2014 the amounts of the capital, reserves, profit or loss and other relevant information of the group's company are as follows:

Equity							
Company	**Capital**	**Reserves**	**Other**	**Operating results**	**FY profit (loss)**	**Carrying value of the investment**	**Dividends received**
Sonocrew, S.L.	3,006	50,149	-	5,366	- 6,143	3,006	-

At December 31st 2013 the amounts of the capital, reserves, profit or loss and other relevant information of the Group's companies where the Company had a stake were as follows:

Equity							
Company	**Capital**	**Reserves**	**Other**	**Operating results**	**FY profit (loss)**	**Carrying value of the investment**	**Dividends received**
Sonocrew, S.L.	3,006	49,879	-	3,108	270	3,006	-

Equity								
	Mexican peso					Euro		
Company	**Capital**	**Reserves**	**Losses carryforwards**	**Operating results**	**FY profit (loss)**	**Carrying value of the investment**	**Value adjustments for impairment**	**Dividends received**
Producciones y Licencias Plaza de España, S.A. de C.V.	2,050,000	-	(1,013,917)	(172)	(359)	72,933	(72,933)	-

Equity									
Euro									
Company	**Capital**	**Share premium**	**Reserves**	**Losses carryforwards**	**Operating results**	**FY profit (loss)**	**Carrying value of the investment**	**Value adjustments for impairment**	**Dividends received**
Cake Entertainment, Ltd	1,230	148,476	16,838	(185,688)	40,825	32,093	989,158	-	-

Equity									
Euro									
Company	**Capital**	**Share premium**	**Reserves**	**Losses carryforwards**	**Operating results**	**FY profit (loss)**	**Carrying value of the investment**	**Value adjustments for impairment**	**Dividends received**
Cake Distribution, Ltd	222	-	(16,939)	752,317	93,407	4,405	-	-	-

Equity									
Euro									
Company	**Capital**	**Share premium**	**Reserves**	**Losses carryforwards**	**Operating results**	**FY profit (loss)**	**Carrying value of the investment**	**Value adjustments for impairment**	**Dividends received**
Cake Productions, Ltd	1	-		(56,567)	(8,309)	(8,309)	-	-	-

Equity									
Euro									
Company	**Capital**	**Share premium**	**Reserves**	**Losses carryforwards**	**Operating results**	**FY profit (loss)**	**Carrying value of the investment**	**Value adjustments for impairment**	**Dividends received**
HLT Productions Bv	18,000	-	(22,030)		6,607	6,282	-	-	-

9. Held-to-maturity investments

At December 31st 2014 and 2013, the Company has not held-to-maturity investments.

10. Financial Assets at a reasonable value with changes in Income Statement

This heading includes the following items and amounts:

	2014	2013
		Euro
Held for trading-listed securities		
SCH bank shares (Note 7)	149	164

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

	2014	2013
		euro
Non-current loans and receivables		
-Clients, non-current	1,565,282	4,069,891
-Clients, subsidiaries	-	54,619
-Non-current deposits	-	101,619
Total non-current loans and receivables	**1,565,282**	**4,226,129**
Current loans and receivables		
-Loans to associates (Note 26)	-	413,218
-Current account with subsidiaries (Note 26)	178	332
-Current account with related parties	23,897	20,688
-Trade receivables	3,291,810	1,369,027
-Trade receivables subsidiaries	25,348	112,021
-Employees	361	21
-Debtors	16,243	-
-Interest in current investments (Note 26)	-	63,448
-Current deposits	367,647	243,609
-Fixed-term deposit	748,200	748,200
Total current loans and receivables	**4,473,684**	**2,970,564**
Total	**6,038,966**	**7,196,694**

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

	2014	2013
		euro
Euro	2,794,295	2,429,437
US dolar	3,218,654	4,624,478
Pound sterling	-	121,482
Australian dolar	26,017	404
Yuan	-	17,467
Other	-	3,426
Total	**6,038,966**	**7,196,694**

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

Also, non-current trade receivables item in the interim balance sheet shown client balances with maturity exceeding 12 months from the end of the semester at year-end 2014.

This item of non-current trade receivables includes the valuation at amortised cost balances with a maturity of over one year. This valuation involves a net increase of this item that amounts to EUR 2,365 and of the profit before taxation that amounts to EUR 117,953. This difference in the amounts is due to one of the trade receivables' being valued at amortised cost of EUR 4,604,833, which has been totally impaired in 2014, after the recording of its amortised cost.

At the previous year-end, such valuation meant a loss of EUR 452,687 both in the item of trade receivables as in the result before taxation.

Apart from the above-mentioned, at December 31st 2014, the Group had abandoned non-collectable accounts amounting to EUR 18. These receivables had been registered as doubtful debts in 2013. On the other hand, an impairment that had been recorded in 2013 as doubtful debt has reversed in EUR 7,919.

The amount of the impaired balances at year-end represents EUR 4,992,662 (EUR 119,916 in 2013). The variation corresponds on the one hand to what has been previously stated above, and, on the other hand, to the Group's recording as doubtful debts of EUR 4,880,682 in 2014, which corresponds mainly to the impairment of the CareersDiapers Llc. agreement. The Group has impaired such agreement as a precaution because although the commercialisation and management of the agreement is actually being executed, the actual delays in the business development make it likely that the payments deriving from such agreement might be delayed yet again. At present, Zinkia does not have the capacity to estimate when the payments deriving from such agreement shall be received. This is reason why the Directors have decided to record the impairment due to the uncertainty in the terms of such payments.

The rest of the impaired amounts under this item corresponds mainly to the pending payments of clients whose debt collection date is six-month overdue.

The maximum exposure to credit risk at the reporting date is the fair value information for each of the categories of receivables mentioned above. The Company does not hold any guarantee as insurance.

The fair value of financial assets does not differ substantially from the book value.

On the other hand, the Company had been granted a stay by the General Treasury of the Social Security amounting to EUR 433, 465, which has been secured with the economic rights of three customers. At the year-end, there is an amount of EUR 624,730 within the receivable accounts balance sheet related to these customers.

The voluntary entrance of the Parent Company in the Arrangement with Creditors procedure has led the Social Security Treasury to end such delay which was not in force at December 31st 2014. The guarantee bound to such delay is still in force.

12. Derivative financial instruments

	2014	2013
Interest rate swaps-clash flow hedges	-	
CAP	-	3
Total	**-**	**3**
Less non-current portion	-	3
Non-current	**-**	**3**
Current	**-**	**-**

euro

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

At December 31st 2014 the outstanding notional principal from the contracts of rates swap amounted to EUR 200,000.

At December 31st 2014 the Company entered into a C.A.P. agreement with a EUR 3,950 premium. This CAP showed a valuation of EUR 0 at that date.

At December 31st 2014, the fixed interest rate was 1.95% and the floating rate was 12M Euribor. Gains or loss recorded in equity under "Adjustments for changes in value" on interest rate swaps at December 31st 2014 have been transferred to the income statement.13. Creditors and payables

Euro

	2014	2013
Non-current creditors and payables		
-Bank loans	317,511	555,917
-Participating loans	500,190	500,000
-Other loans	2,878,192	3,145,698
-Debentures and bonds	-	2,238,000
-Payables transformable into grants	331,974	367,724
Total non-current creditors and payables	**4,027,867**	**6,807,339**
Current creditors and payables		
-Bank loans	1,536,404	1,254,490
-Interest debt with banks	92,889	41,906
-Debentures and bonds	2,517,229	33,049
-Trade creditors	2,386,818	1,653,855
-Trade creditors subsidiaries	-	448,521
-Fixed assets creditors	-	44,229
-Current account with related parties	25,377	53,096
-Interest debt with related parties	4,003	3,586
-Other debts	3,436,022	2,500,021
-Interest debt	263,725	352,266
-Wages and salaries pending of payment	1,409	20,092
-Client advances	35,588	-
Total current creditors and payables	**10,299,465**	**6,405,111**
Total	**14,327,332**	**13,212,450**

It should be noted that the classification regarding the long and the short-term debt balance corresponds to the different contracts according to their respective maturity dates, such as they should be recorded in the balance of the Company given the case the Company had not entered the voluntary declaration of arrangement with creditors. By the judicial decision dated 7th April 2014 this classification is without effect until an arrangement is approved establishing the new maturity dates to the debt.

As discussed in note 2 herein, at December 31st 2014, the Company hopes to reach in the coming months a positive solution to the APAC presented. The approval of the APAC by the court will allow the Company overcoming the present circumstances it is going through and thus satisfy its creditors according to the conditions in the said APAC (note 28).

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 as it has been above-mentioned are subject to the approval of the APAC by the court.

At the end of the previous year the interest rates were between 2% and 6%.

Under the caption "Other loans" are mainly found the funds from the Ministry of Industry, Energy and Tourism regarding the grants corresponding to the call for the "Strategical Action on Telecommunication and Information Society", annuity 2012, within the sub-Programme "Competitivity, R+D", and to the call "Strategical Action on Telecommunication and Information Society, annuity 2013, under the sub-programme "Strategical Action on Economy and Digital Society".

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

Euro

	2014	2013
Euro	13,541,768	12,645,723
US dolar	750,581	545,812
Pound sterling	33,574	14,944
Yuan	1,409	5,971
Total	**14,327,332**	**13,212,450**

a) Bank borrowings

The amount of the Company's balances with credit institutions at December 31st 2014 and 2013 are as follows:

Euro

	2014	2013
Loans	1,853,915	1,810,407
Total loans	**1,853,915**	**1,810,407**
Interest on current bank borrowings	92,889	41,906
Total interest on current bank borrowings	**92,889**	**41,906**
TOTAL	**1,946,804**	**1,852,313**

Among the bank borrowings there is a mortgage loan that the Company holds with a bank, which amounts to EUR 310,000 guaranteed by a land plot owned by Finantip, S.L. The sole shareholder of Finantip, S.L. is Jomaca 98, S.L.

b) Participating loans

The Company has a participative loan agreement amounting to EUR 500,000 that generates an annual interest rate which is calculated on an annual nominal rate basis resulting from the percentage of before-tax results on the average shareholders' equity for the year, both referred to the year in which interest rate is to be settled; once such percentage has been determined, the percentage points expressing the first tranche will be subtracted; the difference will result in the annual nominal rate to be applied in the settlement of the interest payable on the second tranche. In the event of a negative percentage, the variable rate is 0%.

Amortisation shell be recorded in the arrangement with creditors that will be finally approved (note 28).

c) Fixed income securities issue

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

The conditions of the issue are as follows:

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

As stated in note 2.I.1) herein, after the failure of the new debt issue, for the explained reasons, and given the manifest impossibility to meet the coming debt repayment milestones, as the amortisation to maturity of the debenture bond issue "Debentures Simple Zinkia 1st issue" was to mature in November 2013, the Company requested, in October 31, 2013, the legal procedure under art. 5bis of the Insolvency Act in order to renegotiate these conditions and reach a new agreement that would allow the full repayment of the bonds.

Thus, on December 9, 2013, the General Assembly of Bondholders "Debentures Simple Zinkia 1st issue" approved the modification of the Final Payment Conditions for the "Debenture Simple Zinkia 1st Issue" according to the following terms:

Number of securities	2.238
Unit par value	1,000
Issue price	100%
Annual interest rate payable annually	11.00%
Amortisation of securities	11/12/2013
Amortisation system	Par

Finally, and such as it has been stated in note 2, i.1) the Company has submitted an application for voluntary arrangement with creditors. And therefore these conditions are left void and null, and shall depend on the conditions established in the arrangement to be approved. The Company has submitted an Advanced Proposal of Arrangement with Creditors that bondholders have adhered when the majorities required by law were achieved, the Proposal must be approved, as appropriate, by the competent judge (Note 28).

Long-term accruals

This long-terms accrual arises as a result of the temporary application of income derived from the agreement signed for the development of content in educational *apps.* The Company invoices the applications following the terms of the agreement, yet the payment will be applied to the profit and loss account as the development of every application is completed and delivered. This account includes the applications that the Company estimates that will be delivered in the long term. The item includes the amortised cost value because it is a balance with a more than one-year maturity. Such valuation means a loss in this item of EUR 63,411 (Note 7.1)

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, every annuity is invoiced including the amount corresponding to the agreed blocks of apps developed. In accordance with the accounting standards applied by the Group, incomes from this project will accrue at the delivery of materials. This item will decrease according to allocation of incomes. In 2014 revenues were registered in the profit and loss account amounting to EUR 338,702 (EUR 1,248,256 at year-end 2013).

14. Cash and cash equivalents

At December 31st 2014, the Company's cash situation was as follows:

euro

	2014	2013
Cash at bank and in hand	1,793,515	903,439
Other cash equivalents	173	139
Total	**1,793,688**	**903,578**

Total cash-flow and other cash equivalents are included under the effective cash-flow account.

This item includes Company's cash ledger amounts. The amounts of the cash and cash equivalent ledger denominated in the following currencies:

euro

	2014	2013
Euro	1,018,227	458,977
US dolar	775,144	439,928
Pound sterling	50	82
Yuan	75	4,283
Other currencies	193	308
Total	**1,793,688**	**903,578**

15. Capital and share premium

a) Capital

Euro

	2014	2013
Registered capital	2,445,677	2,445,677
(Uncalled capital)		
Total	**2,445,677**	**2,445,677**

At December 31st 2014 the registered capital consisted of 24,456,768 ordinary bearer shares represented by book entries with a par value of EUR 0.10 each, fully subscribed and paid in.

At December 31st 2014, 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 Alternative Investment Market (Mercado Alternativo Bursátil- MAB).

b) Share premium account

This reserve is freely available for distribution.

	2014	2013
	Euro	
Share premium	9,570,913	9,570,913
Total	**9,570,913**	**9,570,913**

This caption also reflects both in 2012 as at December 31st 2014, the merger premium generated in 2004 as a result of the merger by absorption of the companies Gamecrew, S.L. and Motioncrew, S.L. in the amount of EUR 118,100.25.

16. Reserves and prior-year results

a) Reserves

	2014	2013
	Euro	
Legal and statutory		
-Legal reserve	330,475	330,475
Total legal reserve	**330,475**	**330,475**
Other reserves		
-Voluntary reserve	1,689,018	1,689,018
-Reserves for other adjustments	(1,101,070)	(1,101,070)
Total other reserves	**587,948**	**587,948**
Total	**918,423**	**918,423**

Legal reserve

The legal reserves are funded when the result makes it possible 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. It should be used to offset losses in the event of no other reserves being available, it must be replenished out of future profits.

17. Treasury shares

At December 31st 2014, the Company has not carried out any transactions with its own shares.

At the end of 2013 the movements were as follows:

Euro

	2013	
	Number of shares	Euro
Starting balance	281,503	403,841
Additions	347,554	404,187
Disposals	(347,554)	(404,187)
Ending balance	**281,503**	**403,841**

The treasury stock held by the company at December 31st 2014 represented approximately 1.15% (same value as at year-end 2013) of the share capital with a nominal value of EUR 28,150 (EUR 28,150 at December, 31st 2013) and an average acquisition price of EUR 1.09 (EUR 1.09 at December, 31st 2013) per share. Also, the average selling price of the treasury stock held by the Company at December 31st 2014 is 1.75 euros per share (1.75 euros at 31 December 2013).

The result of the purchase of treasury stock last year is a loss of EUR 185,793 recorded under Reserves.

18. Profit/(loss) for the year

a) Profit /(loss) for the period

The distribution proposal of the profit/loss and reserves to be presented before the General Shareholders Meeting is as follows:

Euro

Available for distribution	**2014**	**2013**
Profit/(loss) for the year	(3,833,399)	(1,020,297)
Total	**(3,833,399)**	**(1,020,297)**
Application		
Retained losses offsetting To prior-year losses	(3,833,399)	(1,020,297)
Total	**(3,833,399)**	**(1,020,297)**

19. Based payment transactions in equity instruments

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

On October 10th, 2011, the Company issued a Relevant Fact under Article 82 of Securities Market Law

24/1988 and Memorandum 9/2010 of the Spain´s Alternative Investment Market (Mercado Alternativo Bursatil–MAB) which reported on the Long-term Variable Compensation Plan according to resolution of the Board of Directors.
This plan provides delivery of shares to senior management and members of the Board of Directors. The characteristics and conditions are as follow:

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

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

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

At December 31st 2014, there were no conditions mentioned above to implement the plan, so no need to record 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 EUR 2,500,000. In the loan agreement signed by both parties set out the compulsory purchase of own shares by the Company amounting to EUR 300,000, must provide, upon maturity of the loan- February 14th 2014- the amount of EUR 2,200,000 plus shares acquired with the above EUR 300,000.

The Company bought own shares amounting to EUR 300,000 in accordance with the agreement. These own shares are registered in a separate account decreasing company net equity. In the balance sheet are valued at weighted average price. In the event that the value of the shares, at that date, is less than that amount, the Company undertakes to cover the difference in share or cash.

Concerning this operation, the number of shares purchased amounts to EUR 206,881, and their market value at year-end 2014 was EUR 99,303 and EUR 148,954 at year-end 2013.

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

At the date of preparation of these annual statements, the Company was not able to reach a satisfactory refinancing agreement with a private entity, holder of a loan. Given the situation the Board of Directors decided to submit an application for Voluntary Arrangement with Creditors last February 26, 2014 (Note 28).

20. Capital grants received

Below is a breakdown of the non-repayable capital grants included in the balance sheet item “Grants, donations and bequests received”:

Granting entity	Euro	Purpose	Grant date
Education, Audiovisual and Culture Agency	150,000	Pre-production of 3 audiovisual works	11/6/2007
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	8/3/2010
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	8/3/2010
Ministry of Culture	46,469	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	8/3/2010
Ministry of Culture	60,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2012	11/7/2012
Ministry of Culture	35,750	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2013	9/11/2014

Movements of these grants were as follows:

	2014	2013
		Euro
Opening balance	154,515	130,978
Increases	35,750	64,086
Release to income	(57,005)	(16,342)
Other decreases	5,313	(24,206)
Closing balance	**138,573**	**154,515**

The Company has not received any capital grants in 2014.

In 2014, the Company was officially informed by the Ministry of Education, Culture and Sports that the grant amounting to EUR 35,750 above-mentioned had been recognised as definitive. And so it is finally considered as non returnable and is included as the Company's equity herein.

The Company received in 2013 capital grants for the development of Moving Pocoyo project amounting to EUR 35,750 and for the development of the Zinkia Croupier project amounting to EUR 48,777.These grants are subject to compliance with certain requirements imposed to the Company by the corresponding Ministry granting each aid, so as a precaution, no such amounts are charged to equity until these requirements are not met and may be therefore be considered as non-refundable.

At November 25th 2013 the Company was officially informed by the Ministry of Education, Culture and Sports that the grant amounting to EUR 60,000 which had been granted the previous year to the Parent Company for the development of the project Zinkia family & Kids IPTV had been recognised as definitive and so it was finally considered as non returnable.

In 2014 the Company was officially informed by the Ministry of Education, Culture and Sports that the grant amounting to EUR 35,750 above-mentioned had been recognised as definitive. And so it is finally considered as non returnable and is included as the Group's equity herein.

The Company meets the requirements to be considered as non-repayable grants. Grants are transferred to the profit and loss account according to the amortisation of the projects funded.

21. Balance with the Public Administration and Deferred taxes

Set out below is an analysis of balance with the Public Administration:

Euro	2014		2013	
	Debtors	Creditors	Debtors	Creditors
Tax Authorities Balance				
VAT	4,005	12,150	42,935	-
Withholding		127,936	2	128,467
Grants	-	136	-	152,597
Social Security Balance				
Operating expenses		46,394	-	43,059
Short term deferment	-		-	80,970
Total	**4,005**	**186,616**	**42,937**	**405,093**

The credit balance with the tax office (Agencia Tributaria) regarding VAT corresponds to the period 12. This amount was paid in January 2015.

The VAT debt corresponds mainly to credits of the Company before the tax office derived from VAT return applications.

As to witholding taxes, the credit balance in favour of Agencia Tributaria it includes the amounts of the witholding taxes generated in the last quarter of 2014 which were paid in January 2015.

As to the current social security costs, the credit with the Social Security derives from the social insurances from December 2014 which was paid in January 2015.

The balance resulting from the deferral granted by the tax authority is included at year-end within the item “other debts” together with the rest of the amounts recorded to its favour as insolvency debt (see item “b” in this same note).

a) Deferred taxes

Deferred taxes are detailed as follows:

Euro	Additions and disposals 2014	Additions and disposals 2013	Prior years	Total
Tax credits for tax-loss carryforwards	(492,819)	701,564	1,393,360	1,602,105
Other tax credits	1,337,033	191,879	3,032,400	4,561,311
Deferred tax assets	**844,214**	**893,443**	**4,425,759**	**6,163,415**
Temporary differences related to income recognized directly in equity	5,314	(10,915)	(43,660)	(49,261)
Temporary differences-amortisation	1,570	(2,386)	(18,627)	(19,443)
Reversal of temporary differences-amortisation	3,450	4,894	6,698	15,042
Deferred tax liabilities	**10,333**	**(8,406)**	**(55,588)**	**(53,660)**
Deferred tax	**854,547**	**885,037**	**4,370,171**	**6,109,756**

Deferred tax assets and liabilities are offset if at the time the Company has an enforceable right to offset the amounts recognised and intends to settle the net amount, or to realise the asset and settle the liability simultaneously.

Movement of deferred taxes has been as follows:

	2014	2013
		Euro
Opening balance	**5,255,208**	**4,370,171**
Tax effect on income recognizes directly in equity	5,314	(10,915)
Charged to the income statement (Note 23)	849,234	895,951
Closing balance	**6,109,756**	**5,255,208**

Deferred tax assets arising from tax loss to carry-forwards are recorded to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Company's business expectations for the coming years make it discard any doubts as to the company's capacity to create the future profits necessary to afford the recovery of the said tax credits.

At year-end 2014 the amount of EUR 1,337,033 is generated as deferred income. Such figure is due mainly to the adjustment in the corporate tax calculation of the impairment expense recorded regarding the trade credits derived from the possible insolvencies of some debtors (Note 11), as well as from the impairment of the loan that the Company has granted to Jomaca 98, S.L., since according to the tax legislation such amounts are not deductible if, at the time of the tax accrual a six-month period has not passed since maturity of the debt or if the debtor is insolvent, as is the case of Jomaca 98, S.L. The deferred income deriving from such adjustments amounts to EUR 1,287,428.

In the same line, the Company has activated the pending deductions that amount to EUR 68,325. This corresponds to the double taxation deductions in 2014.

At year end 2014 the Parent Company has abandoned fiscal credits amounting to EUR 492,819. This figure includes, on the one hand, the compensation of credits generated in 2009 amounting to EUR143,665, since due to the above-mentioned adjustments the parent company has a positive tax base, and on the other hand, and as a consequence of what was stated in Note 8 herein regarding the changes in the Group during 2014, there is a negative adjustment of EUR 349,154 deriving from the basis recorded at the previous year-end at 25% which has reverted to 30%, and then changed again to 25%, since the exit of Cake of the group represents a change in the forecasts of the taxable rates of the Company, which leads the Company to estimate that this 25% tax rate will be compensated in the future. The taxable bases pending compensation at December 31st 2014 totalled EUR 6,408,417.

It has to be underlined that this adjustment in the rates brings on a loss of EUR 2,028 on the deferred assets which is caused by the pending tax reductions and credits which should be applied in order to record this asset at 25%. The same happens with the deferred asset caused by the limitation to the expenses in amortisation, it brings a loss of EUR 16,693 because of the rate change.

b) Other tax receivables and payables

On the other hand it should be pointed out that at December 31st 2014 the current liabilities of the Company include a trade debt in favour of the tax authorities amounting to EUR 206,250 derived mainly from the withholding taxes from the first quarter in 2014, and from the rectified invoices issued by the creditors of the Company in order to obtain the return of the VAT corresponding to the credits that had been left unpaid by the Company at the date of declaration of the voluntary arrangement with creditors.

At year end 2014 Company has been granted an insolvent debt in favour of the Social Security amounting to EUR 363,689. Such figure corresponds mainly to the deferral granted to the Parent Company and to the social contributions corresponding to March 2014.

As stated in note 11 herein, the Company has pledged as security for such postponement, the economic rights of three clients. At year-end, there is an amount of EUR 624,730 in the account of receivables related to these customers.

The Company has not paid the amounts due to the Public Administration in accordance to the insolvency legislation in force, since such amounts are considered as insolvent debt and they will be paid according to the payment schedule to be approved in the coming months.

22. Income and expense

a) Transactions denominated in foreign currency

Transactions carried out in foreign currency are as follows:

Euro	2014	2013
Sales	3,196,682	3,656,816
Services rendered	338,142	522,250
Total	**3,534,824**	**4,179,066**

The breakdown of the exchange rate differences is as follows:

Euro	2014	2013
Arising during the year	9,169	(5,977)
Arising for closing balance	743,539	(417,604)
Total	**752,707**	**(423,581)**

b) Turnover

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

Market	2014	2013
Domestic	34%	25%
International	66%	75%
Total	**100%**	**100%**

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

Euro	2014	2013
Content	19%	40%
Licensing	39%	28%
Advertising	42%	32%
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	2014	2013
Raw materials and consumables	220,338	162,279
Total	**220,338**	**162,279**

d) Other operating expenses

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

Euro	2014	2013
Leases	209,275	251,330
Repairs	11,160	16,577
Independent professional services	1,276,737	1,758,114
Insurance	20,135	40,350
Bank fees	35,997	45,673
Advertising and public relations	120,165	244,998
Utilities	33,716	40,586
Other general expenses	183,710	201,724
Other taxes	7,797	3,332
Impairment losses on commercial transactions	4,880,664	23
Losses on commercial transactions	15,736	63,709
Reversal of impairment losses on commercial transactions	(7,919)	(63,709)
Total	**6,787,172**	**2,602,706**

e) Staff expenses

Euro	2014	2013
Wages, salaries and similar remuneration	1,875,549	1,643,347
Social Security	490,609	437,665
Other expenses	2,667	3,227
Total	**2,368,824**	**2,084,239**

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

CATEGORY	Average number of employees	
	2014	2013
5-YR DEGREE HOLDER	23	20
3-YR DEGREE HOLDER	4	4
SR.MANAGER	4	5
MANAGER 1	-	-
MANAGER 2	3	2
OFFICIAL 1	9	7
OFFICIAL 2	1	1
ASSISTANT	2	2
OPERATOR	8	5
GRANT HOLDER	1	-
CHARWOMAN	1	-
Total	**56**	**47**

The distribution of the Company's personnel at year-end 2014 by gender and category is as follows:

CATEGORY	2014		2013	
	Men	Women	Men	Women
5-YR DEGREE HOLDER	6	14	6	17
3-YR DEGREE HOLDER	3	1	3	1
SR.MANAGER	1	1	4	1
MANAGER 2	2	-	2	-
OFFICIAL 1	7	1	7	1
OFFICIAL 2	1	-	1	-
ASSISTANT	-	2	-	2
OPERATOR	4	1	4	3
GRANT HOLDER	-	1	-	-
CHARWOMAN	-	1	-	-
Total	**24**	**22**	**27**	**25**

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			(3,833,399)			26,810
	Increases	Decreases		Increases	Decreases	
Corporate Income Tax		(779,528)	(779,528)			
Permanent differences	24,076	-	24,076			
Temporary differences:						
arising during the year	5,149,713	-	5,149,713			-
arising from previous years	13,799	-	13,799		(26,810)	(26,810)
Offsetting tax-loss carryforwards						
Taxable base (tax result)			**574,661**			

The permanent differences mainly correspond to the impairment expenditure recorded last year deriving from the Mexican subsidiary which, at year-end, is under the final stage of liquidation.

The temporary differences have their origin in the tax regulation which establishes that the impairment expenditures due to trade credits recorded during the year are not deductible if, at the time of the taxation, a period of six months has not expired since the maturity of the credit or if the debtor is insolvent as it so happens with Jomaca 98, S.L. For this reason neither the impairment of trade credits which meet this condition (Note 11) nor the impairment of the loan that the Company has granted Jomaca 98, S.L., are deductible this current year but they will be in the coming years.

The reconciliation for 2013 was set out as follows:

Euro

	Income statement			Income and expense recognised directly in equity		
Income/expense for the year			(1,020,297)			44,763
	Increases	Decreases		Increases	Decreases	
Corporate Income Tax		(787,355)	(787,355)			
Permanent differences	114,436	-	114,436			
Temporary differences:						
arising during the year	333,861	-	333,861			-
arising from previous years	16,313	-	16,313		(44,763)	(44,763)
Offsetting tax-loss carryforwards						
Taxable base (tax result)			**(1,343,042)**			

Income tax expense in 2014 is analysed below:

	Current year tax	Income tax paid abroad	Change in deferred tax				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	-	(69,705)	1,270,735	(492,819)	66,298	5,020	779,528
Total	**-**	**(69,705)**	**-**	**(492,819)**	**66,298**	**5,020**	**779,528**

Income tax expense in 2013 was:

	Current year tax	Income tax paid abroad	Change in deferred tax				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	-	(91,947)	100,158	684,919	91,716	2,508	787,355
Total	**-**	**(91,947)**	**100,158**	**684,919**	**91,716**	**2,508**	**787,355**

The Company capitalised deductions in the amount of EUR 6,408,418 at December 31st 2014 (note 21a).

At December 31st 2014 the Company's corporate tax returns for the years 2010 to 2013 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 2011 to 2014.

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

24. Accruals and contingencies

In 2014 the Company has not recorded any amount under this caption. The reasons for this lack of record of such provisions is the advice of our legal department as well as that of the external law firm office in charge of the demands, since they estimate the risk taken by the Company is low. At the time of preparation of these annual financial statements, it is not possible to know the final economic consequences, if any, of these events. At year-end in 2013, the Company had registered a provision amounting to EUR 100,000 corresponding to the administrative decision issued by the CNMV by virtue of a penalty process. In 2014 this provision is kept since it has been published.

25. Director and senior management compensation

a) Remuneration of the members of the Board of Directors

In 2014 remuneration of the members of the Board of Directors for sitting on the Board amounted to 99,000€

In 2013 the members of the Board of Directors received no remuneration for sitting on the Board.

In 2014, as in 2013, 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 period.

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 some 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

During 2014, the remuneration received by management senior staff who are not members of the Board of Directors to carry out tasks of senior management in the parent Company amounted to EUR 202,000. The remuneration received in 2013 totalled EUR 193,642.

We must underline the existence of special exit clauses set out in a private agreement supplementary to the labour contract. In this regard, the compensation of such employees could amount to 24 months' salary, additional and regardless of the legal compensation due per year worked, if any of the conditions contained in these documents should occur.

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

Article 229 of the Spanish Capital Companies Act in force (the consolidated text of which was ratified by Royal Decree Law 1/2010 of 2 July.) as worded in Law 31/2014 (December 3rd), whereby the Stock Market Act and the Spanish Capital Companies Act were amended to increase transparency in listed companies and improve corporate government, 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: Mr. José María Castillejo Oriol is the Director of the company Sonocrew, S.L. This position in the Company was unremunerated. Additionally, the Director of the Parent Company, Mr. José Carlos Solá Ballester is manager and main shareholder of an audiovisual producer called Cien por Cien Cine, S.L. as well as manager and shareholder in Traveltrain TV Spain, S.L.
The members of the Board of Directors have not communicated any direct or indirect conflict situation they might hold against the Company, such as established in article 229,3 in the Spanish Capital Companies Act.

26. Other related-party transactions

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

Euro	2014		2013	
	Expense	**Income**	**Expense**	**Income**
José María Castillejo Oriol	208,000	-	-	-
José Carlos Solá Ballester	3,000	-	-	-
Jomaca 98, S.L.	3,000	-	-	31,422
Sonocrew, S.L.	511	36,324	3,493	40,193
Roatán Comunicaciones	-	-	119,635	-
Armialda, S.A.	25,000	-	312,500	-
Other related parties	-	-	2,545	-
Cake Distribution, Ltd	-	-	86,358	256,221
	239,511	**36,324**	**524,531**	**327,836**

The expenses related to Mr. José María Castillejo is derived from his remuneration as CEO (note 25) and, on the other hand and just like Armialda, he is also remunerated as for his services as business consultant for the Company.

The expenses derived from Jomaca 98, S.L., and José Carlos Solá correspond to the their payment of allowances for assisting to the meetings of the Board of Directors held in 2014.

Income invoiced by Sonocrew, S.L. (Company in charge of managing the musical contents of Zinkia's productions) are generated by their business activities.

On the other hand, the expenses of Sonocrew amount to EUR 511. This amount is due to the mutual credit line agreement signed by and between the parties.

Transactions with related parties are made on normal commercial terms and market conditions.

Closing balances with related-parties

Euro	2014		2013	
	Debit	**Credit**	**Debit**	**Credit**
Current account with subsidiaries				
Sonocrew, S.L.	178	-	139	-
Producciones y Licencias Plaza de España, S.A. de C.V.	-	-	193	-
Current account with related parties	23,897	-	20,688	
Long-term trade receivable	-	-	-	-
Cake distribution, Ltd	-	-	54,619	-
Trade receivable				
Sonocrew, S.L.	25,348	-	25	-
Cake distribution, Ltd	-	-	111,996	-
Trade payable				
José María Castillejo Oriol	-	28,058	-	-
Roatán Comunicaciones	-	76,907	-	59,926
Armialda	-	250,444	-	333,287
Jomaca 98, S.L.	-	-	-	-
Cake Entertainment, Ltd	-	-	-	11,634
Cake Distribution,	-	-	-	43,674
Short-term credits				
Jomaca 98, S.L.	-	-	476,666	-
Short-term loans				
Other related parties	-	-	-	27,927
Long-term loans				
Sonocrew, S.L.	-	29,381	-	28,755

Jomaca 98, S.L, as majority shareholder, had granted guarantees to the Company against financial creditors. Such guarantees are null and void because Jomaca 98, S.L. Is currently under voluntary procedure of arrangement with creditors.

The Company has decided to recognise 100 % impairment on the guarantee granted by Jomaca, since the loan matured last December 31st 2013, because of Jomaca's insolvency, and because the Company, in its turn, turned also insolvent under the procedure of arrangement with creditors. Such guarantee accrued a rate of 7.5% payable at maturity. The amount of the accrued interest was also 100% impaired.

This impairment brings a lost on the Company's balance result of EUR 476,666.

Also, as stated in Note 8 herein, in 2014 the Company has transmitted the whole of its shares in Cake Entertainment, Ltd. to the up to then minority shareholders. The transmission of such shares represents for the Company a loss of approximately EUR 365,518 and means its departure from the group.
As a consequence there is no need to detail the balances deriving from Cake at year-end 2014 under this heading.

27. Environmental information

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

In 2014, there were no major environmental expenditures.

28. Events after the balance sheet date

There are no meaningful events after year-end.

29. Auditors' fees

The professional fees for auditing individual and consolidated annual financial statements for the Company in 2014 totalled EUR 9,227, additionally, the amount of EUR 8,072 was paid for other auditing services (semester review in 2014).

The professional fees charged by Garrido Abogados y Asesores Fiscales, S.L. In 2013 amounted to EUR 9,500, additionally, the amount of EUR 8,847 was paid for other auditing services (semester review in 2013).

The professional fees charged by Garrido Abogados y Asesores Fiscales, S.L. amounted to EUR 34,017 in the same period last year. These fees amounted to EUR 41,160 in the previous year.

30. Other disclosures

The Group is controlled by Jomaca 98, S.L., which owns 64.71% of the Company's shares, the largest amount possessed by any shareholder.

The parent company, which files its accounts with the Madrid Business Register, has claimed the exemption detailed in article 43 of the Commerce Code and does not file consolidated annual accounts in such sense.

JOMACA 98, S.L has filed for voluntary insolvency.

Impact of International Financial Reporting Standards in the Annual Financial Statements

Article 537 of the of the Corporate Enterprises Act provides that, the companies which have issued securities admitted to trading on a regulated market of any Member State of the European Union and, according to current regulations, only publish Annual Financial Statements, 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 period, is submitting annual consolidated financial statements, so all the above does not apply.

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

Pursuant to the terms of this law, we should stress that approximately 98% of the trade credits recorded in the balance of the Company at 3 December 31st 2014 correspond to the insolvency debt, the payment of which must await the approval of the arrangement with the creditors which is to fix the different maturities. For this reason we cannot apply the analysis of period payment required under this caption. As to the remaining 2% of the trade creditors that are part of the balance, we have to stress that they correspond to recurring services for the current period and aimed at the business of the Company and the payment of which does not exceed the legal term.

In 2014 the Parent Company has paid trade creditors up to EUR 1,970,114, out of which 15% exceeded the legal term established. The weighted average term of exceeded payment is 216 days.

The Company at the previous year-end had a balance payable to suppliers in the amount of EUR 1,502,342. During that year, the Company made payments to suppliers amounting to EUR 3,192,890, out of which 48% exceeded the legal limit. The weighted average term of payment amounts to 293 days.

At the previous year-end the suppliers held pending payments against the Parent Company which exceeded the legal term of EUR 1,502,342. In 2013 the Parent Company paid suppliers the amount of EUR 3,192,890 out which 48% exceeded the legal term established. The payments exceeded weighted term reached 293 days.

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

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

31. Guarantees

At year-end 2014, the Company has the following guarantees:

Two from Avalmadrid SGR amounting each to EUR 200,000 and EUR 2,000,000, both are guaranteeing the loans taken with a financial entity for the same amounts (Note 13).

The third guarantee taken with another financial entity amounts to EUR 748,198, whose funds to pledge have been deposited by the Company. This guarantee was required by the Ministry of Industry, Energy and Tourism in order to obtain funds from the Avanza programme (Note 13), regarding the call for "Strategic Action Plan for Telecommunications and Information Society", 2012 annuity, within the sub-program "Competitivity R+D". At June, 30th 2013, the guarantee has already been pledged on Company funds.

Also, the Company has deposited EUR 101,619 in cash, at the General Deposit Bank as a guarantee for the Ministry of Industry, Energy and Tourism who required it in order for the Company to obtain the grant for the call "Strategic Action Plan for Telecommunications and Information Society "2013 annuity, within the sub-program" Strategic Action Plan for Digital Economy and society (Note 13).

32. Signed Annual Financial Statements

These Annual Financial Statements are signed by the members of the Board of Directors.

ZINKIA ENTERTAINMENT, S.A.
DIRECTORS' REPORT CORRESPONDING TO 2014

Business Performance and Company Situation

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

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

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

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

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

On the 07th April 2014, the court issued finally the decision appointing the company ATTETS INTEGRA, S.L.P. as Insolvency Administration at the proposal of the Comisión Nacional del Mercado de Valores.

Such as it has been communicated in the Annual Accounts last year, the Company was already working in the update of the Viability Plan and in the elaboration of a Payments Plan to be offered to each group of creditors. Based on both documents and considering the information achieved in the interviews the Company had held with its creditors according to the 5BIS procedure, the Board of Directors of the Company decided in May to present an Advanced Proposal of Arrangement with Creditors (APAC) before the court of the Mercantile nº 8.

This Advanced Proposal of Arrangement with Creditors (APAC) does not entail reductions, reason why it has been well accepted among creditors, which at the time of its presentation before the mercantile court actually led to count already on the adherence of some of the main creditors, like financial entities and banks and the Spanish Public Administration, among some others. Also, in the 17th June 2014 took place the Bondholders Meeting wherein bondholders adhered the APAC presented by the Company.

At July 11th 2014 and within the term granted by the court, the Insolvency Administration filed its positive report on the content of the APAC presented by the Parent Company regarding the Payments Schedule and the Viability Plan.

As a consequence of the above, at December 31st 2014 the Company expects to achieve a positive resolution to the APAC presented. The approval of the APAC by the court would allow the Company to overcome the circumstances it is currently going through, and satisfy its creditors in the terms of said APAC, while relaunching the Company's business.

In spite of being subject to an insolvency procedure, the Company keeps growing and developing its business, considerably increasing the revenues generated out of its activities and minimising to the maximum the costs deriving from such business activities.

In 2014 the great increase in the Group's sales raised 13% compared to the same period last year. This increase in the sales is the consequence of the business evolution and growth.

As to the degree of compliance with the projections published, Zinkia has reached 55% of the estimated sales for 2014. The evolution regarding 2013 is analysed as follows together with the compliance degree with the projections for 2014 by business line.

Regarding the content, sales have been 42% inferior to the previous year, representing 40% of the figures estimated for 2014. This item includes sales originated in the commercial exploitation of the audiovisual content in different platforms (television, apps downloads, etc.). In the same way, the item includes the amounts received by the project of aps production for the Government of the USA. The deviation regarding the estimated amounts are focused on this las project. Zinkia is producing these apps in collaboration with a American non profit organisation. The Company is paid for each app delivered according to the production schedule established, and the sale is registered at the time of delivery. In 2014 nine apps were estimated to be delivered. Zinkia's production has been subject to the continuous delays in the referred organisation, which has affected the established production schedule. As a consequence the number of the apps finally delivered has been smaller and therefore also the sales linked to them. The delivery and, therefore, the sales originated in the apps the production of which has been delayed will take place in 2015.

The largest increase in the different business lines is found in the category of Licensing & Merchandising, with an increase of 49% compared to the previous period. This growth is the consequence of the commercial exploitation and the international expansion of the trade name POCOYO™. As to the total estimated sales under this category in 2014, the target amount has been reached by 50%

The insolvency situation the Parent Company is going through and which was expected to be solved in 2014 has affected the company negatively. Zinkia keeps expanding internationally, enlarging its network of partners and trade agents, thus entering new markets. Many negotiations have been affected by the insolvency situation and have been delayed because the positive resolution to the arrangement with the creditors was not issued in the estimated date.

And last, sales regarding publicity increased a 41% compared to the previous period, thanks to the good results of the publicity exploitation in online platforms.

This business line represents 76% of the total sales projected for 2014. Zinkia manages the purchase of publicity both in third party's platforms as directly. And just like under the category of Licensing & Merchandising many negotiations have been affected by the insolvency situation and therefore the Company has not reached the figures as estimated.

In other revenues from the exploitation we find the activated amount of the works made by the Company itself to develop and produce its interactive audiovisual projects.

Zinkia is still controlling costs. Regarding the estimates for 2014, the costs have been less than was estimated, except for the registration of the assets impairment of the group, which have increased considerably the estimated costs.

The staff expenses have increased 14% because the staff was enlarged compared to the previous period. The recruitment was the minimum possible, based on business needs, and related mainly to the production department, regarding the necessary and indispensable resources to meet the time schedules in the production of the educational apps currently under development. However the cost has been inferior to the initial estimated for the year.

“Other exploitation expenses” has been increase by 161% compared to the previous period. This item represents the costs of assessors, consultants and, mainly, the trade commissions. As it can be read in the following details, the recurring costs have been inferior to last year and inferior to what estimated. This decrease is due to the cost control already mentioned above. However, the total amount of the item has been superior to 2013 and to the estimates because of the commercial transactions credit impairment record, which had been foreseen.

Zinkia has recorded in its statements an impairment related to the receivable derived from the agreement signed with CareersDiapers Llc. The Parent Company has impaired such agreement as a precaution because although the commercialisation and management of the agreement is actually being executed, the actual delays in the business development make it likely that the payments deriving from such agreement might be delayed yet again. At the present of these statements, Zinkia does not have the capacity to estimate when the payments deriving from such agreement shall be received. This is the reason why the Directors have decided to record the impairment due to the uncertainty in the terms of such payments.

This above-mentioned impairment does not affect the Payment Schedule compromised by the Parent Company within the procedure of the arrangement with the creditors, because although there is a chance that the payments of this licensee might be delayed, the Parent Company is capable of complying with the payment commitment according to the forecast for the coming years.

€	2013	2014
Independent professional services	667,490	430,376
Impairment of receivables	23	4,888,481
Other general expenses	1,935,193	1,468,315
TOTAL	**2,602,706**	**6,787,172**

As to the financial result, financial incomes are originated in the amortised cost value of the long-term receivables, as well as, to a larger extent, in the positive differences in exchange due to the evolution of the US Dollar.

As to the financial expenses, Zinkia, and as it has already been stated, was declared to be in arrangement with the creditors last April 7th 2014. The Insolvency Act in provision 59 establishes that the accrual of interests, be legal or conventional, is suspended without prejudice to the exceptions under such rule.

The Audit Institute (ICAC) in its decision dated October 18th 2013, explained that it considered that said suspension is merely procedural / insolvency-wise and that, according to the on-going concern, the accrual of such interests should be recorded in spite of the procedure of arrangement with the creditors.

Zinkia therefore is facing a situation wherein the Insolvency Act and the ICAC have established different criteria regarding this particular issue. The Company awaited the positive resolution regarding the APAC that was presented within the procedure of arrangement with the creditors and which does not contemplate the payment of interests (except for those already accrued and unpaid before April 7th following the Insolvency Act), and therefore, additional interests are not recorded. This is the reason why the Company esteemed fit not recording interests after the date of the declaration of the Arrangement with the creditors, and not including such costs in the projections. However, since the arrangement with the creditors procedure is being delayed, the Directors of the Company have decided to record the interests until December 31st 2014 according to the ICAC.

The amount recorded in the item “Impairment and loss of assets”, which is part of the financial result, corresponds with the impairment recorded in relation with the receivable of the Parent Company Jomaca 98, S.L., derived from a loan agreement. The Company, out of precaution and because of the arrangement with the creditors of this Company, has decided to record an impairment in this item amounting to the total of the receivable. This same heading includes the loss derived from the transmission of the stake of the

Company in the Cake Group, since the transmission value was inferior to the carrying value.

The Working Capital presents a negative figure amounting to EUR 5,699,021 at December 31st 2014. The long and short-term debts are part of Zinkia's insolvent debt. Since the APAC has not been solved in 2014 the debt is recorded with the original maturity of each loan, be it at long or short term. The Company, as it has been stated, is subject to an insolvency procedure since last 7th April 2014. An Advanced Proposal of Arrangement with Creditors has been presented with the corresponding viability plan and payments plan. The evolution of the working capital shall depend on the outcome of the said APAC. The Company expects to achieve a positive resolution regarding the APAC. The approval of the APAC by the court would allow the Company to overcome the circumstances it is currently going through, and satisfy its creditors in the terms of said APAC, while relaunching the Parent Company's business and improving the financial position in the short-term and carrying most of the debt to the long-term.

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

There are no meaningful events after year-end.

Outlook for the Company

The Company estimates that, if the court approves the Advanced Proposal of Arrangement with Creditors, the Company shall be capable of reaching the expected results for the coming years and this will afford to continue on with the Company's business and to accomplish all the payment commitments.

For the year 2015 and the following, a substantial increase is expected in the turnover of the Company based on the introduction of POCOYO™ into new markets, the increase of business lines regarding content and advertisements, as well as the developing of new audiovisual content and brands.

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

Research & Development

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

Financial Risk Hedging

At December 31st 2014, and as it has been mentioned above, all of the Parent Company's debt is awaiting the favourable outcome of the arrangement with the creditors, which shall establish the new conditions to which the debt shall be subject. And therefore the Parent Company cannot classify the debt by interest rates. At the previous year-end, 82% of the total amount of the debt of the Parent Company was fixed-rated.

At the previous year-end the average interest rate was 6.51%

Acquisition of treasury shares

At December 31st 2014, the Company has not made any transaction with its treasury shares.

The treasury shares at December 31st 2014 represent approximately 1.15% (1.15% at December 31st 2013) of the share capital with a total face value of EUR 28,150 (EUR 28,150 at December 31st 2013), and an average acquisition price of EUR1.09 per share (EUR1.09 at December 31st 2013). Also, the average sale price of the treasury shares at December 31st is EUR 1.75 per share (EUR 1.75 at December 31st 2013).

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

ISSUER IDENTIFICATION

YEAR-END REFERENCE DATE 31st DECEMEBER 2014

C.I.F. A82659061

Company name: ZINKIA ENTERTAINMENT S.A.

Company address: CALLE INFANTAS 27-28004 MADRID

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

A.- OWNERSHIP STRUCTURE

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

NIF or CIF	Name or company name of the shareholder or holding	% over capital share
02310993E	MIGUEL FERNANDO VALLADARES GARCIA	11.20
B82158379	JOMACA 98, S.L.	64.71
05257311V	ALBERTO DELGADO GAVELA	3.75

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

NIF or CIF	Name of company	Type of relation	Brief description

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

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

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

YES **NO**

Description of restrictions
None

B.- SHAREHOLDERS MEETING OR EQUIVALENT BODY

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

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

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

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

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

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

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

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

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

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

The Company's Statutes in force during 2014 differ from some provisions in the Companies Act after its last reform wherein it is established a general scheme of simple majority understood as more votes in favour than against, in order to adopt resolutions.

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

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

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

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

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

A General Shareholders Meeting took place on 11th February 2014, and the following resolutions were submitted to the approval of the Shareholders, and were actually approved by the following favourable votes:

First.- *Delegation to the Board of Directors of the power to issue on one or more occasions, bonds and/or debentures convertible into new shares of the Company and/or exchangeable for shares of the Company. Setting the criteria for determining the basis and types of exchange. Delegation of powers.*

Approved by 81.29% votes.

Second.- *Delegation of powers to supplement, develop, execute, rectify and formalise the resolutions adopted by the General Meeting.*

Approved by 81.29% votes.

Third.- *Mr. Alberto Delgado Gavela ceased to be member of the Board of Directors.*

Approved by 79.72% votes.

Fourth.- *ANGEL- MARTÍN ORTIZ ABOGADOS, S.L. ceased to be a member of the Board of Directors.*

Approved by 79.72% votes.

Also a General Shareholders Meeting took place on 26th June 2014, and the following resolutions were approved by the Shareholders, by the following percentage of votes:

First.- *Examination and approval, where possible, of the Annual Financial Statements (Balance sheet, Income, Change in Equity, Cash-Flow and Memoir) and Management Reports, corresponding to ZINKIA ENTERTAINMENT, S.A. and its consolidated Group in 2013.*

Approved by 81.53% votes.

Second.- *Examination and approval, when applicable, of the proposal of distribution of the year's result.*

Approved by 81.53% votes.

Third.- *Examination and approval, when applicable, of the Board of Director's management.*

Approved by 81.53% votes.

Fourth.- *Reelection of the Company's and its consolidated Group's auditor*

Approved by 81.53% votes.

Fifth- *Reelection and appointment of the Directors. Setting of the number of members of the Board of Directors.*

5.1. Reelection as member of the Board of Directors for the statutory term of five(5) years of Mr. José María Castillejo, who will also qualify as Executive Director.

Approved by 78.59% votes.

5.2. Reelection as member of the Board of Directors for the statutory term of five(5) years of JOMACA 98, S.L., who will also qualify as Proprietary Director.

Approved by 81.53% votes.

5.3. Reelection as member of the Board of Directors for the statutory term of five(5) years of Mr. José Carlos Ballester, who will also qualify as Independent Director.

Approved by 81.53% votes.

5.4. Setting of the number of members in the Board of Directors of the Company to three (3).

Approved by 81.53% votes.

Sixth.- *Setting of the remuneration of the Board of Directors.*

Approved by 78.37% votes.

Seventh.- *Approval of the Advanced Proposal of Arrangement with Creditors*

Approved by 81.57% votes.

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

Approved by 81.57% votes.

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

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

http://www.zinkia.com/es/accionistas-inversores/

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

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

Given the economic situation of the Company, its declaration as Voluntary Arrangement with Creditors April 07th 2014, and its filing of the Advanced Proposal of Arrangement with the Creditors before the competent judge at April 11th 2014, the Company proceeded to call for a Bondholders Meeting,which was scheduled to be held at the Barbieri room of the Hotel Lusso Infantas, located at calle Infantas 29 of Madrid on May 16th 2013, at 12:00 pm on first call, and at the same time and in the same venue, on June 17th 2013, on second call, with the following agenda:

First.- Information on the insolvency procedure of the Company Relevant aspects for the Bondholders. Resolutions adopted, when applicable.

Second.- Adherence to the Advanced Proposal of Arrangement with the Creditors elaborated by the Company. Resolutions to be agreed upon.

Third.- Delegations of powers to the Commissioner regarding the activities to be performed on behalf of the Bondholders within the insolvency procedure.

Fourth- Delegation of Powers.

- Such Meeting was held on second call, deed of it was written, and the following resolutions were approved:

First.- Information on the insolvency procedure of the Company Relevant aspects for the Bondholders. Resolutions adopted, when applicable.

Approved by 100% votes.

Second.- Adherence to the Advanced Proposal of Arrangement with the Creditors elaborated by the Company. Resolutions to be agreed upon.

Approved by 100% votes.

Third.- Delegations of powers to the Commissioner regarding the activities to be performed on behalf of the Bondholders within the insolvency procedure.

Approved by 100% votes.

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

Approved by 98,88% votes.

C ENTITY'S MANAGEMENT STRUCTURE

C.1 Board or managing body

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

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

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

BOARD DIRECTORS/MEMBERS OF THE MANAGING BODY

Director NIF or CIF	Name or company name of the director/ managing body member.	Representative	Last date of appointment
00.397.125-F	José Maria Castillejo Oriol		06/26/14
B-82158379	Jomaca 98, S.L.	Julio Covacho López (002253830Z)	06/26/14
31235121-V	José Carlos Sola Ballester		06/26/14

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

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

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

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

C.1.5 Complete the following table regarding the aggregated remuneration of the Directors or members of the management body, accrued during the year:

Remuneration Concept	**Thousands of euros**	
	Individual	**Group**
Fixed Remuneration	**90**	**0**
Flexible Remuneration	**0**	**0**
Allowances	**9**	**0**
Other Remuneration	**0**	**0**
TOTAL:	**99**	**0**

(*) Mandatory field. The figures in thousands of euros admit no decimals

C.1.6 Identify those members of the senior management who are not at the same time Directors or members of the executive management body, and specify the total remuneration accrued in the year:

NIF or CIF	**Name or Company Name**	**Position**
002253830Z	JULIO COVACHO LOPEZ	GENERAL MANAGER
07496832M	LOREA GARCIA JAUREGUI	SECRETARY GENERAL / DIRECTOR OF THE LEGAL DEPARTMENT AND HUMAN RESOURCES

Total remuneration of senior management (thousands euros)	202

C.1.7 Specify of the Company's statues or the rules of the Board of Directors establish a limited number of mandates for the Directors or members of the management body:

Maximum number of year mandates	0

YES NO

C.1.8 Specify whether the annual individual and consolidated financial statements presented to the approval of the board of directors or management body are previously certified:

YES NO

Specify, if any, the person/s who has/have certified the annual individual and consolidated financial statements to be prepared by the board of directors or management body:

NIF	Name	Position

C.1.9 Explain, when applicable, the mechanisms established by the board or body of management in order to prevent the individual and consolidated financial statements prepared on its own from being presented before the general shareholders meeting or equivalent body with qualifications in the auditor's report.

As established in the Regulations of the Board of Directors of the Company, Article 39, paragraph 3, the Board of Directors endeavours to prepare the financial statements in such a way as not to give rise to qualifications by the auditors. However whenever the Board considers it must maintain its criteria, it shall publicly explain the content and scope of the discrepancy.

C.1.10 Is the Board's or management body's Secretary a Director?

Yes No

C.1.11 Indicate, if any, the mechanisms established to preserve the independence of the external auditor, financial analysts, investment banks and rating agencies.

Article 13 of the Regulations of the Board of Directors of the Company provides that the Audit Committee will be in charge of liaising with the external auditors to receive information on any issues that could jeopardise their independence and any other matter related to the performance of the audit, as well as other communications established by the audit legislation and technical auditing standards.

C.2. Committees of the Board or management body

C.2.1 Number the management bodies:

Name of the Body	Number of Members	Functions
Audit Committee	**2**	**Those detailed under provision C.2.3**

C.2.2 Specify all the committees of the Board or management body and their members:

DELEGATE OR EXECUTIVE COMMITEE

NIF or CIF	Name or Company namePosition	

AUDIT COMMITTEE

NIF or CIF	Name or Company name	Position
B-82158379	JOMACA 98, S.L.	MEMBER SECRETARY
31235121V	JOSE CARLOS SOLA BALLESTER	PRESIDENT

C.2.3 Provide a description of the organisational and operational rules and the responsibilities attributed to each of the board committees or board members. Where appropriate, do describe the powers of the CEO. Writing limit to 4,000 characters
AUDIT COMMITTEE (CA) Members: 3 to 5 Directors, the majority of non-executive directors with at least one independent. Office for four years, reelected after 1 year after cessation. President elected among non -executive directors. Al efforts will be made so that all members of the Committee are appointed taking into account their knowledge and experience in accounting and auditing. They will cease when they cease to be directors or when decided by the Governing Council (GC). At least two annual meetings to review the periodic financial information required by securities authorities and the information that the GC has to approve and publish. It shall meet whenever called by its Chairman, who must do so whenever the CdA or himself requests the issuance of a report or the adoption of proposals by the CA and whenever requested by any member of the CA.Among others, the CA shall perform the following functions: -Informing the Shareholders Meeting on matters raised by shareholders regarding its powers -Proposing the CdA, for submission to the Shareholders Meeting, the appointment of external auditors external (conditions, scope mandate, revocation or renewal...) -To supervise the internal audit systems; ensure its independence and effectiveness -Review accounts, monitor compliance with legal requirements and the correct

application of accounting principles, working with external and internal auditors – to know and to supervise the preparation process and the integrity of financial information, reviewing compliance with regulatory requirements and the correct application of accounting principles; know and supervise the adequacy and integrity of internal control systems and review the appointment and replacement of those responsible for them -Review internal control systems and risk management, for identification, management and disclosure them properly -Relating with the external auditors in order to receive information on matters that could jeopardise their independence and any other matters related to the auditing process, as well as other communications envisaged in the legislation and technical auditing standards - monitoring the compliance with the audit contract, ensuring that the opinion on the annual accounts and the main contents of the audit report are drafted clearly and precisely, and also evaluate the results of each audit -Review periodic financial information supplied by the Board to the markets and their supervisory bodies, making sure that the interim accounts are prepared using the same accounting principles as the annual compliance -Examine the compliance of the Internal Code of Conduct Rules, the GC Rules and the government rules, and make proposals for their improvement -Informing the CdA, prior to the adoption of decisions on the following basis: a) the creation or acquisition of interests in special purposes entities or domiciled in tax havens , as well as other transactions or operations of a comparable nature whose complexity might impair the transparency of the group; b) related party transactions. CHIEF EXECUTIVE : The GC may appoint from among its members one or more Managing Directors, and it may delegate to them wholly or partly all powers that are not deemed to be non-transferable under applicable laws and bylaws.

C.2.4 Specify the number of meetings held by the Audit Committee during the year:

Number of meetings	3

C.2.5 In case there is a Committee of Appointments, specify if all of its members are Directors or members of the management bodies.

Yes No

D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP OPERATIONS

D.1 Detail transactions between the company or Its group companies and shareholders, cooperative shareholders, holders of proprietary rights or any other equivalent nature of the entity.

There is a loan operation between the Company and JOMACA 98, S.L.which has not accrued any interest in the current year due to JOMACA's insolvency situation.

Also this year the management has been remunerated. Since Mr. José Maria Castillejo Oriol and JOMACA 98, SL are Directors of the Company and shareholders of the Company, the aggregated remunerations are found under provision C.1.5.. And there was a provision of consulting services regarding both Armialda, SA and Mr. José Maria Castillejo as detailed in the annual statements for 2014.

D.2 Detail the transactions between the Company or Companies of the group and the managers or members of the board of directors or executives of the Company.

As noted in previous sections, there is a loan operation between the Company and JOMACA 98 , S.L. Which has no accrued any interest in the current year due to JOMACA's insolvency situation.

Also this year the members of the board have been remunerated. Those aggregated remunerations are found under section C.1.5. And there was a provision of consulting services regarding both Armialda, SA and Mr. José Maria Castillejo as detailed in the annual statements for 2014.

D.3 Detail the intra-group operations.

The operations in force within the Zinkia Group are the following:

Distribution Agreement between Cake Entertainment,Ltd. and ZINKIA ENTERTAINMENT, S.A. Regarding the distribution of television audiovisual contents of the former in some territories in exchange of a commission or percentage over the distributed content.

Reciprocal credit line agreement between ZINKIA ENTERTAINMENT, S.A. and SONOCREW, S.L.U. Amounting to FOUR HUNDRED THOUSAND EUROS A YEAR (400,000 €/year).

D.4 Describe the mechanisms established to detect, determine and resolve possible conflicts of interest between the company or its group and its directors or board members or directors.

There has not been any conflict of interest between the directors, according to the provisions of Consolidated Companies Act.

In this regard, the Company has established the following mechanisms established in Article 29 of the Regulations of the Board of Directors.

1. Directors must communicate the existence of any conflict, direct or indirect, that may arise with the interests of the Company. The Director in question shall refrain from participating in agreements or decisions relating to the transaction to which the conflict is referred.

2. Directors must also disclose any direct or indirect participation that both them as well as the related persons referred to in Article 231 of the Companies Act, have in the capital of a company with the same, similar or complementary activity that constitutes the corporate purpose, and also communicate the positions or functions they exercise.

3. The situations of conflict of interest provided for in the preceding paragraphs shall be reported in the memoir.

E INTERNAL CONTROL SYSTEMS AND RISK MANAGEMENT

E.1 Explain the scope of the Risk Management System of the Company.

The Company counts on systems of risk internal control regarding the risks to which it is exposed, these systems based on the identification and evaluation of the factors that may affect in some way the meeting of the Company's objectives.

The activities of the Company are exposed to various financial risks: market risk, credit risk and liquidity risk. The program for overall risk management of the Company focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on its financial performance. The Company uses derivatives to hedge certain risks.

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

The management of these risk factors is controlled by the Finance Department of the Company, who identifies, evaluates and hedges financial risks in accordance with policies approved by the Board of Directors.

The Board provides for guidelines for managing both the overall risk and the specific areas such as exchange rate risk, interest rate risk, liquidity risk, use of derivative and non- derivative instruments and investment excess liquidity.

Likewise, the Audit Committee regularly reviews the internal control and risk management systems so that the main risks are identified,managed and properly disclosed.

E.3 Point out the main risks that might affect meeting the business goals.

Writing limited to 4,000 characters
Market risk: 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.The Company currently has no hedge mechanism against fluctuations in currency exchange rates. Therefore, Zinkia is exposed to fluctuations in exchange rates derived from the development of its activities in various countries outside the euro environment in which it operates, as well as from the potential changes that may occur in the various currencies in which the Company maintains its commercial debt. If the Company's turnover in other currencies grows, the Company's exposure to exchange rate fluctuations shall increase. 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. 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’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 scenes, 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. Scenes are only simulated for liabilities

representing the most significant interest-bearing positions.

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

Liquidity Risk: Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, keeping funds available through sufficient committed credit facilities and having the ability to close out market positions. Given the dynamism of the underlying business, the Financial department aims at keeping the financing flexible by means of keeping the credit lines compromised available.

E.4 Identify if the Company counts on any risk tolerance level.

In the performance of activity and the preparation of budgets and business plans the Company counts, with the risks identified, and attempts to manage the assets of the company with the necessary flexibility by using very conservative criteria, so that, as to potential existing risks, the Company will not be affected. Therefore, there is a certain level of tolerance for risk, although, depending on the risks, the necessary mechanisms already planned to minimise any damage should be implemented.

E.5 Specify the risks that materialised this year.

Yes.

During 2014 credit risks and liquidity have materialised

Given the difficulty of access to financial markets and their impact on the liquidity of the company, together with the tensions that were promptly communicated to the Market as Relevant Facts and the maturities the Company had to face in the last quarter of 2013 and the first quarter of 2014, the company, in 2012 and 2013, has managed the control and reduction of the expenditure and attempted to access to alternative funding different than the financial institutions, for example by the Issue of Simple Debentures, broadcast, approved by the CNMV, which finally had no placement. Given the results, the Company communicated the Mercantile Courts of Madrid on October 31st 2013 the continuation of the negotiations with its main creditors, as provided in Art. 5Bis of the Insolvency Act.

In any case, the economic and financial position of the Company after the failure to reach an agreement with one of its major creditors led the Board to decide to seek voluntary arrangement with creditors procedure, so on 26 February 2014 the Company filed for voluntary declaration of arrangement with the creditors before the Commercial Courts of Madrid. The Commercial Court No. 8 in Madrid issued a decision in April 7, 2014 in which the ZINKIA ENTERTAINMENT S.A. is declared to have entered the procedure of the voluntary arrangement with the creditors. Also, ATTEST INTEGRA, S.L.P. It was appointed as insolvency administrator by the National Securities Market Commission and the Court Mercantile nº 8 of Madrid. Once the Company was declared to be under voluntary arrangement with the creditors, the Company negotiated and presented to the court an Advanced Proposal of Arrangement, which a majority of creditors have adhered as requested by the Insolvency Act. At present, the Company is awaiting the

Court to approve the said Proposal and declare the departure of the Company from the insolvent situation.

In general, and for all risks that occurred this year as described in this paragraph, the Board of Directors, according to its powers, has monitored and controlled such risks, by implementing and performing the systems of internal control and information. As a tool to strengthen this end, the Company has counted on the functions of supervision and review conducted by the Audit Committee, as well as on the management led by the Directors of the different areas affected by the materialisation of these risks.

E.6 Explain the plans of reaction and monitoring of the main risks of for the Company.

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

As set out in Article 5.1.g.vii Regulations of the Board, the Board of Directors approves the policy of control and risk management, and the periodic monitoring of internal information and control systems.

Likewise, the Audit Committee regularly reviews internal control and risk management systems , so main risks are identified, managed and given properly disclosed , as provided in Article 13.2.c of the Regulations of the Board.

F SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT REGARDING THE PROCESSING OF FINANCIAL INFORMATION (SICFI)

Describe the mechanisms that are part of the internal control and risk management regarding the processing of financial information in your Company (SCIIF).

F.1 The Corporation Control Environment

Report by pointing put the main features of at least:

F.1.1. Bodies and functions responsible for: (i) creating and maintaining a suitable and effective SICFI; (ii) implementing it; and (iii) monitoring it.

The Board of Directors is the highest governance body responsible for creating and maintaining a suitable and efficient SICFI, both directly and through their Audit Committee.

According to provision 13.2 of the Board of Administration Regulations, and regarding the systems of information and internal control, the Audit Committee, shall be responsible, among other items, for:

- Monitoring the effectiveness of the internal control of the Company, its internal auditing and, if need be, the risk managing system. Discussing with the statutory auditors or audit societies the significant weaknesses of the internal control system detected during the auditing.

- Monitoring the process of elaboration and presentation of the regulated financial information regarding the Company and, if need be, the Group.
- Establishing due contact with the statutory auditors or audit societies in order to be reported on all those questions that might jeopardise their independence and that shall be examined by the Committee. The Committee shall also be reported on any other question related to the accounting audit, and on any other communication necessary under the regulation of accounting audit or the rules of auditing. In any case, the Audit Committee shall receive annually from the statutory auditors or audit societies written confirmation of their independence vis-à-vis the corporation or corporations bound to this one directly or indirectly, together with the information on the additional services of any kind provided to those corporations by the aforementioned auditors and societies, and by those persons or entities bound to them according to the provisions of the Accounts Audit Act (as approved by Royal Decree 1/2011 July 1st.)
- Annually issuing, before the statutory auditor issues his own report, a report whereby the Committee shall express their opinion on the independence of the statutory auditors or audit societies. In any case such report shall take a stand on the additional services that are provided as referred to in the above paragraph.
- Review compliance of the Internal Code of Conduct, of the present Regulations and, in general, of the rules of governance of the company, while also providing the necessary proposals for their improvement.

In order to monitor the SICFI, the Committee shall be entitled to review the process of elaboration and presentation of the regulated financial information regarding the company and/or the Group, a function bestowed on the Audit Direction, the main aim of which is ensuring the good performance of the internal systems of information and control, as well as evaluating the internal control implemented by the external auditor. Thus, the Audit Committee shall:

- Be responsible for the design, implementation and performance of the SICFI. This function shall be executed via the Financial Department, which shall be responsible for the elaboration of the financial statements and for implementing and maintaining the due sets of primary control aimed to rule the transactions and all other operations that process the information that is to become the source of those financial statements. Audit Committee shall also check the adjustment and integrity of the systems of internal control and review the appointment and replacement of those persons responsible for them. The process of elaboration of the accounting principles and policies will also be checked.
- Be aware of and monitor both the integrity and the process of elaboration and presentation of the financial information regarding the company and, where applicable, the Group, by reviewing compliance of the legal requirements, the correct delimitation of the consolidation perimeter and the correct implementation of the accounting criteria.
- Monitor periodically the systems of internal control and risk management, in order to duly identify, manage and raise awareness on the main risks, while discussing with the statutory auditors the significant weaknesses of the system of internal control detected during the auditing.
- Ensure the independence, and monitor the efficiency, of those functions regarding internal control and their legal compliance.

F.1.2. If any, and specially regarding the process of preparation of the financial information, the following items:

a) Departments and/or mechanisms in charge of: (i) the design and review of the organisation structure; (ii) the clear definition of the guidelines on responsibility and authority and the adequate distribution of tasks and functions; (iii) the implementation of enough number of procedures to communicate properly all of the above within the corporation, and in particular the process of elaboration of financial information.

The design and review of the organisation structure as well and the definition of the guidelines on responsibility and authority fall within the scope of the functions of the Board of Directors.

The Managing Director shall implement such a structure while also taking care of distributing tasks and functions adequately.

The Managing Director shall also ensure the adequate segregation of functions and the perfect definition of the guidelines on authority and responsibility.

The communication of the organisational structure to the whole corporation shall take place periodically, both via electronic media and periodical meetings with the whole of the corporation staff.

b) Code of conduct, approval body, communication and instruction extent, principles and values included (pointing any specific references to the registration of operation and the process of financial information), body responsible for analysing in compliance and proposing penalties and corrective measures.

The company has an Internal Code of Conduct in connection with the Securities Market approved by the Board of Directors, on 9th June 2009, applicable to Directors, Managers, external consultants and all those providing any services to the Company in connection to markets, and particularly to the financial department.

The said Code provides with the conduct criteria to be followed by the above addressee in the markets operation, including their communication and registration, with the aim of contributing to the transparency of such operations and of protecting investors. The Code refers as to how to act in case of conflict of interests, and provides the rules of conduct related to inside or relevant information, etc. The Code is based on the principles of impartiality, good faith, the protection of the general interest before the company's own, and care and diligence in the use of information, and regarding the activities performed in the markets. These set of rules of conduct provide the guidelines employees should adhere and thus prevent the risk of unethical conduct.

The Board shall be responsible for ensuring compliance of the Code, analysing its breaches and proposing penalties and corrective measures, except whenever members of the Governance Bodies are involved, in this case the Board of Directors shall be the competent authority.

c) Channel of complaints to report to the Audit Committee any financial and accounting irregularity, as well as any possible breach of the code of conduct or any irregular activity in the organisation, reporting if need be about their confidential character.

The corporation is considering the implementation of a channel of complaints that shall afford reporting to the Audit Committee any detection of financial and accounting irregularities while granting total confidentiality on that report.

d) Regular training and updating of knowledge programmes, including at least accounting rules, auditing, internal control and risk management, aimed at the staff involved in the preparation and review of the financial information and the SICFI evaluation.

Employees belonging to the financial area and responsible for the elaboration and review of financial information must have the adequate, updated knowledge for them to qualify and be capable of performing such entrusted responsibilities.

To that effect, the said staff shall be recruited by paying conscientious attention to their training in the fields of accounting, auditing, internal control or risk management, notwithstanding, if need be, the additional training that might be considered adequate in such fields at any time.

The Financial Department, in co-ordination with the Human Resources Department, shall decide what plans of internal or external training are adequate to ensure the ongoing training and competence of all members of that Area.

F.2 Risk assessment in financial information.

Report at least on:

F.2.1. Main features of the risk identification process, including risks of error and fraud.

A In the case of a process already existing and documented.

The risk identification process in the financial information is implemented periodically by the Financial Department without actually documenting such process.

The corporation is considering the implementation of a documented process that shall afford reporting to the Audit Committee any detection of risks, including error and fraud, while establishing the different options of action to be taken accordingly and the corresponding processes of prevention, identification and regularisation.

This process is the fundamental pillar of any adequate system of internal control, and therefore it shall involve the cooperation of the department in charge of processing the financial information, as well as the Risk Control of the Company, the Financial Department, as well as the Board, as supervisors charged with the review, and the Board of Directors as the highest body charged with the internal control of the financial information.

B In the case of a process meeting the whole of the goals of the financial information, that might be upgraded and how often it is to be upgraded.

The extent of the risk identification process in financial information covers from the occurrence and valuation to the presentation and breakdown of that information.

The Financial Department identifies the possibilities of errors in each of the likely sources of risk, implementing different measures of identification according to their origin.

Automatic means of identification and alert are used during the phases of occurrence, record and valuation, through measures of logical security implemented in the systems of financial information, and through the automatic matching of balances on the information recorded.

Technological systems assure the correct process of the activities related to a large volume of information, transactions and complex calculation.

The breakdown of financial information and its presentation are also assured by the procedures supported by the technical applications for processing financial statements, regarding both their logical security and the accuracy of their calculation.

The risk identification process in financial information shall be updated via the Procedure the corporation is considering documenting vis-à-vis the present process of risk identification and control, through the security policies of the financial information and the manual of the corresponding accounting policies to be approved by the Board of Directors, and to be updated later on according to whatever frequency is finally established.

C Existence of the process of identification of the consolidation scope., taking into consideration, among other issues, that complex corporate structures might exist, together with instrumental os special purposes entities.

The scope of consolidation is determined according to the criteria specified in the international standards for financial reporting and reviewed before a policy change by the Financial Management Group.

D In the case of the process taking into account the effects of other typologies of risk to the extent that they affect the financial statements.

The corporation shall take into account not only the control on the risks identified in section E3 of the Annual Governance Report, which includes the present document, but also the following risks that are part of the risk identification process:

- **Accounting risks:**
  These are the risks affecting the reliability of the financial information and the compliance of the applicable accounting rules.
- **Operational risks:**
  The possibility of incurring into losses as a result of existing inadequate technical and human procedures, or due to their failure, or to the lack of resources, training or the necessary tools for decision making.
- **Technological risks:**
  Risks produced by system failures, or by errors in the processes executed upon them. Besides the software and system errors there are other indirect technological errors and that may be harmful to a large extent, such as failure in telecommunications, external attacks or malaware.
- **Compliance risks:**
  Arising from the possible implementation of internal practices that might cause a negative perception in our groups of interest (clients, suppliers, Public Administration or local surroundings).
- **Reputational risks:**
  Produced as a result of external factors, they might result in modifications in the internal control of the financial information.

E Corporate Governance Body monitoring the process.

The Financial Area, the Management and the Audit Committee, and naturally, the Board of Directors, as ultimate responsible body for the financial information of the Company, are those bodies responsible for monitoring the risk identification process in the financial information of the Company.

The Financial Department shall:

- monitor the recording, valuation, breakdown and presentation of the financial information and the correct estimation of the forecasts,
- identify and check the correct recording of the financial information regarding the risks derived from lending, market and treasury activities, as well as any other risk that might take place due to operational risks, and
- monitor the correct implementation of rules together with the Legal Department of the company, stopping mistakes in their implementation, or lack of knowledge of those rules, from resulting in errors in the financial information.

The Management Committee shall validate the correct presentation and the breakdown of the financial information, as well as the estimates and projections.

The Audit Committee shall monitor and review the whole risk identification process in the financial information.

The Board of Directors, as the corporate highest body of governance, shall approve the policies of security of financial information as well as the manuals of accounting policies.

F.3 Control activities

Report by pointing out the main feature if your Company counts at least on:

F.3.1. Reviewing and authorisation procedure of financial information and description of the SICFI, both to be published in the securities markets and both designating the responsible persons for them as well as the documentation describing the activities and control flows (including those regarding the risk of fraud) of the different types of transactions that might affect the financial statements materially, including the procedure of accounting closure and the specific review of relevant criteria, estimates, valuations and projections.

Article 5 of the Board Regulations provides the formulation of the annual accounts and the management report, both individual and consolidated, as a competence of the Board of Directors, as the company's ultimate decision making body.

The Management and the Board of Directors shall review the estimates on which the most relevant items from the financial statements and projections used by the corporation are grounded.

This review is considered a control activity, prior to the issuing of the financial report, and it is relevant to the extent that it ensures that the criteria and projections used are in line with those endorsed by those ultimate persons responsible for the corporation management, who have actually proceeded to review such criteria and projections.

The Audit Committee is responsible for the review of the financial information.

In order to ensure the reliability of the information all different areas will count on individual control mechanisms on those transactions regarding the financial report.

All the financial information will be captured through the transactions in the computer applications, be they department or branch applications, so as to ensure the reliability, valuation and recording of the information.

As for the control procedures for the transactions materially affecting the financial statements, they are aimed at ensuring the proper recording, valuation, presentation and breakdown of those transactions in the financial report.

There are two types of control procedures:

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

- The Financial Department shall be responsible for reviewing all control procedures, and shall pay special heed to the proper segregation of functions.

F.3.2. Policies and procedures of internal control regarding the information systems (amongst others, on access security, exchange controls and operations, operational continuity and segregation of functions) hosting the relevant corporate processes regarding the processing and issuing of the financial report.

The corporation has established certain internal control systems and expects being capable of documenting them via the corresponding documents on Security and Control Policy on financial report, which shall pay heed to the set of guidelines, obligations, security measures and technological aspects related to financial information, levels of authorisation in accounting applications, and specific controls to detect any possible incident.

The general principles of information security are focused in maintaining and granting the security of the information processed so that the service provided actually grants optimal levels of nondisclosure, integrity and continuity, as well as business continuity, minimisation of tort caused by disasters, and a fast response to any incident, and so that it keeps the level of performance of the critical activities and processes.

The Financial Department shall be responsible for the monitoring and upgrading of this policy.

The Human Resources Department and the Technology Department shall be responsible for the implementation and follow-up of this policy, and the Board of Directors shall be responsible for its approval.

F.3.3.Policies and procedures of Internal control aimed at monitoring the management of those activities outsourced to third parties, as well as those aspects of evaluation, calculation or valuation entrusted to independent experts that might affect financial statements materially.

The corporation has no outsourcing policy for those services related to financial information.

In case of outsourcing those services related to financial information, the economic criteria shall not be the only ones considered, the experience, quality and prestige of the services providers shall be duly matched in the decision making.

Since the external services outsourced are usually audits and consultancy (including fiscal consultancy), such services shall be appointed by the Board of Directors. And due to the cyclical, reiterative features of those services the Financial Director shall authorise the contracting of external services related to financial information.

F.4 Information and Communication

Report by pointing out the main feature if your Company counts at least on:

F.4.1. Specific functions aimed at defining and updating the accounting policies and solving questions and conflicts arising from their interpretation, while keeping a fluid communication with the persons responsible for the operations in the organisation, as well as keeping an updated manual on accounting policies to be handed to all the units operating in the corporation.

The Financial Department shall be responsible for the definition and updating of accounting policies, and for their communication to those people in the organisation actually involved in the processing of financial information. The Board of Directors shall be responsible for approving these policies.

These policies shall be updated in order to be adapted to any legal change whatsoever. They shall be reviewed at least once a year.

The Financial Department shall be responsible for solving any questions or conflicts arising from the interpretation of accounting policies.

F.4.2. Mechanisms to capture and process financial information through homogenous formats implemented and used by all the corporate and company units, hosting the main financial statements and notes, as well as all the information detailed on the SICFI.

The General Accounting application shall centralise all the accounting functions, including the whole accounting of the corporation, and shall be controlled and managed only by the Financial Department.

This system has the following features:

- Multi currency
- Access granted to information according to the different authorisation levels (user transaction and operating centre-account).
- Capture and validation of entries allowed in real time.
- Different types of account are identified in the system.
- It affords interfaces in the operational applications supplying any operation reflecting the accounting events that have taken place.
- Users duly authorised might proceed to maintain through the screen the fixed parameters of the system.
- Information can be presented in different levels of aggregation.

F.5 System performance monitoring.

Report by pointing out the main features of at least:

F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and whether the entity has an internal audit function whose powers include supporting the committee in its task of supervising the internal control system, including ICFR. It will also inform on the scope of evaluation of ICFR in the year and on the procedure which the person responsible for execution of the assessment reports shall communicate the results, whether the entity has a plan detailing the possible corrective measures, and whether it has considered its impact on the financial information.

According to the Regulations of the Board of Directors, the Audit Committee shall be responsible, vis-à-vis the systems of information and internal control, for checking the efficiency, adequacy and integrity of the systems of internal control, for being aware of and monitoring the integrity and the process of elaboration and presentation of the financial report, for periodically reviewing the systems of internal control and for ensuring the independence and efficiency of the internal audit functions.

The Financial Director is organisationally placed under the General Manager and shall functionally report to the Audit Committee, and shall support auditing while also managing the day-to-day relation and review of the system of internal control.

F.5.2. The discussion procedure through which the statutory auditor (according to what is determined by the NTA), internal audits and any other experts shall communicate to the Senior Management and to the Audit Committee any meaningful weakness identified in the internal control during the process of reviewing the annual accounts or in any other process for which they are responsible. Additionally the discussion procedure shall report whenever there is a plan of action aimed at correcting or mitigating the weakness detected.

The corporate function of internal control implemented by the Financial Department, within the scope of works included in its Annual Plan of activity, shall communicate both to the Direction (via the Board of Directors) and, subsequently, to the Audit Committee (periodically, during its meetings) the results of the evaluation of the system of internal control of the financial information.

On the other hand, this procedure shall also communicate any meaningful weaknesses in the internal control that might be identified during the year in some other process.

In these cases, plans of action shall be elaborated with the aim of mitigating such deficiencies detected. Plans of action shall be duly followed-up.

Regarding the statutory auditor, according to the procedure established the auditor shall attend the Audit Committee meetings with the aim of reporting on the result of the work and, when necessary, of making public those details on the internal control weaknesses and on the plans of action implemented in order to remedy such weaknesses.

F.6 Other relevant information

To the Company's thinking there is no other relevant information that has not been communicated to the market or included in this document.

F.7 Report of the external auditor.

Report on:

F.7.1. Whether the information of ICFR communicated to the Market has been subject to the external auditor, in that case the Company should annex the due Report. Otherwise, the Company should communicate its reasoning.

The corporation has not submitted its system of internal control over the process of financial report to any external expert since such control takes place, for the time being, without any specific procedure documented and approved. There is not, to this date, any homogenous procedure. Any such procedure shall be implemented as soon as the final procedures are documented and approved. However, the Group statutory auditors do review all procedures of internal control annually to the full extent imposed by the auditing rules applicable in Spain.

Notwithstanding the above, this document is sent to the external auditor as part of the Annual Report on Corporate Governance included in the management report, with the aim of including it in the auditing of the Annual Accounts corresponding to the year 2013.

G OTHER INFORMATION OF INTERES.

If there is a relevant aspect of corporate governance in the company or group companies that has not been collected in the other sections of this report, but is deemed necessary to be hereby included to collect more comprehensive and reasoned information on the structure and governance practices in the company or its group, describe briefly.

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

Specifically , it shall be stated whether the entity is subject to any legislation r than the Spanish one regarding corporate governance and, where applicable, do include the information the Company is required to provide and that is different from that required in this report.

The entity may also indicate whether it has voluntarily adhered other ethical principles or codes of good practice, be international, sectoral or from other field. Where appropriate, the entity shall identify the specific code and the date of accession.

To supplement the information provided in point C.1.2. and C.2.1. and C.2.2, note that the information in this section is current as at December 31, 2014, which we supplement with the following information:

As informed in this section of the Annual Governance Report in 2013, at 11th february 2014 Alberto Delgado Gavela and Angel- Martin Ortiz Abogados, SL ceased as members of the Board of Directors as approved by a majority vote achieved in Extraordinary General Meeting. Their seats were vacant in the Board of Directors until the Annual General Meeting of Shareholders proceeded to appoint new directors.

At July 16, 2014 , the Board of Directors of the Company approved the appointment of JOMACA 98, SL as Secretary of the Audit Committee, and José Carlos Solá Ballester was appointed Chairman. The Company is taking the necessary steps to fill the vacancy on the Audit Committee.

All these changes were notified to the CNMV and MAB by the Relevant Facts on the day the Company became aware of them or they were decided by Company.

Likewise, the information provided in this report as a point C.1.7., which estates that there is no maximum term limiting the office of the Board of Directors. Should be stressed. As set out in Article 17 of the Company's Statutes and Article 20 of the Regulations of the Board of Directors, the Directors are appointed for a period of five years but may be reappointed. In turn, Article 21.1 of the Regulations of the Board of Directors of the Company provides that the independent directors shall cease when they have held that position for a continuous period of 12 years from the time the Company's shares are admitted to trading on the Alternative Investment Market. The drafting of the corporate documents will have to adapt in the next General Shareholders Meeting to the legislative novelties incorporated in Law 31/2014, of December 3, whereby the Corporations Act is amended to improve corporate governance.
Finally, the information provided in section C.1.6 is also underlined because given that there are not any senior management contracts in the Company in response to the interpretation of the concept by the Commission Nacional del Mercado de Valores (CNMV) which is not reflected in any labour law, for the sake of a greater transparency, and just like other years, this document has included the information of the senior management of the Company who depended some time in 2014 from the Board of Directors or the CEO.

At last it is hereby communicated that the Company has not adhered to other ethical principles or codes of good practice, international, sectoral or of other fields

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This annual corporate governance report was approved by the board or governing body of the entity, in its meeting held on 30^{h} MARCH 2015. Point out those directors or board members who voted against or abstained in connection with the adoption of this report.

No Director voted against or abstained in the approval of the present 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 2014, formulated by the Board of Directors at the meeting held on March 30th 2015 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 30th, 2015

D. José María Castillejo Oriol

D. José Carlos Solá Ballester

JOMACA 98, SL representada por
Dña. María J. Alonso Fernández

GARRIDO AUDITORES

ZINKIA ENTERTAINMENT, S.A.

Audit Report, Consolidated Financial Statement sand Consolidated Director´s Report at December 31, 2014

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.

STATUTORY AUDITOR´S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the consolidated financial statements

We have audited the consolidated financial statements of Zinkia Entertainment, S.A., (hereinafter the parent company) and its subsidiaries (hereinafter the group) comprising the consolidated statement of financial position at December 31, 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the explanatory notes for the year then ended.

Responsibility of the board of directors for the preparation of the consolidated financial statements

The board of directors of the Parent Company are responsible for the preparation of the accompanying consolidated financial statements accordingly, so they can provide a fair presentation of the equity, the financial position and the consolidated results of the group, in accordance with International Accounting Standard (IAS) 34, Financial Reporting, as adopted by the European Union to prepare complete financial statements, and the other provisions of the regulatory financial reporting framework applicable to the group in Spain, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements, based on our audit. We have carried out our audit in accordance with the audit regulations in force in Spain. This regulation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the board of director´s parent company preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group´s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the equity and financial position of the group at December 31, 2014 and the results of its operations and cash flows for the period then ended, in accordance with International Financial Reporting Standards, as adopted by the European Union, to prepare complete financial statements, and the other provisions of the regulatory financial reporting framework which are applicable in Spain.

Emphasis paragraphs

We draw attention to what is indicated in note 2.f of the explanatory notes to the financial statements, where is indicated that on April 7th 2014, has been declared the voluntary arrangement with creditors of the company. This fact, along with the rest of factors indicated in the same note is indicative of a significant uncertainty about the company´s ability to continue its operations. Nevertheless, the board of directors have prepared the accompanying financial statements on a going concern basis, because they believe that the adoption of the measures described in the note will allow to obtain financial resources and the required agreements to accomplish all of its commitments. This issue does not change our opinion.

Report on other legal and regulatory requirements

The accompanying consolidated directors' report for 2014 financial year contains the explanations that the parent company's directors consider appropriate about the situation of Zinkia Entertainment, S.A. and its subsidiaries, the evolution of their 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 directors' report is consistent with that contained in the financial statements for 2014. Our work as auditors was confined to check the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Zinkia Entertainment, S.A. and subsidiaries accounting records.

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

David Jiménez Matías
April 13, 2015

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

AUDIT REPORT, CONSOLIDATED FINANCIAL STATEMENTS, CONSOLIDATED MANAGEMENT REPORT AND ANNUAL REPORT ON CORPORATE GOVERNANCE FOR YEAR ENDED DECEMBER 31st, 2014

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain (see Notes 1 and 27). 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 2014 (In EUR)

Euro

ASSETS	Note	12/31/2014	12/31/2013
Intangible assets	7	8,404,571	9,389,636
Goodwill	7.1		878,364
Other intangible assets	7.2	8,404,571	8,511,271
Property, plant and equipment	8	37,135	83,210
Non-current financial liabilities	9	300	128,005
Deferred tax assets	16	6,165,463	5,319,202
Non-current trade and other receivables	10	1,565,282	4,069,891
NON-CURRENT ASSETS		**16,172,750**	**18,989,944**
Trade and other receivables	10	3,332,878	5,290,496
Corporate income tax assets	16	-	4,343
Other tax receivables	16	4,005	51,788
Current financial assets	9, 18	1,115,996	1,489,327
Cash and cash equivalents	11	1,840,980	1,158,146
Other current assets		3,393	83,028
CURRENT ASSETS		**6,297,251**	**8,077,128**
TOTAL ASSETS		**22,470,001**	**27,067,072**

EQUITY AND LIABILITIES	Note	12/31/2014	12/31/2013
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	964,622	510,517
Treasury shares	12	(403,841)	(403,841)
Translation differences	12	-	43,072
Retained earning	12	(3,504,172)	(2,042,822)
Profit attributable to the equity holders of the parent		(4,037,280)	(1,002,467)
TOTAL EQUITY OF THE PARENT		**5,035,919**	**9,121,049**
Profit attributable to minority interest		-	16,891
Minority interest	12	-	321,262
EQUITY		**5,035,919**	**9,459,202**
Deferred income	13	138,573	154,515
Non-current financial liabilities	14	4,027,867	6,900,181
Deferred tax liabilities	16	53,660	63,994
Non-current accruals and deferred income	13	1,262,675	-
NON-CURRENT LIABILITIES		**5,482,775**	**7,118,690**
Other liabilities and expenses accruals	22	100,000	100,000
Current financial liabilities	14	7,846,269	4,378,173
Current trade and other payable	17	2,424,083	5,126,084
Corporate income tax payable	16	-	113,009
Other tax payable	16	193,098	462,452
Current accruals and deferred income	13	1,387,859	309,462
CURRENT LIABILITIES		**11,951,308**	**10,489,180**
TOTAL EQUITY AND LIABILITIES		**22,470,001**	**27,067,072**

Notes 1-27 are an integral part of the consolidated statement of financial position at December 31st, 2014

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT AT DECEMBER, 31st 2014 (In EUR)

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

Euro	Note	12/31/2014	12/31/2013
Revenue from operations	20	5,676,748	5,032,309
Other operating income	20	1,085,973	1,225,430
Total Revenue		**6,762,721**	**6,257,739**
Cost of goods sold	20	(256,661)	(162,279)
Cost of employees	20	(2,368,824)	(2,084,239)
Other operating expenses	20	(6,754,338)	(2,517,013)
Amortizations and depreciations	20	(1,161,644)	(1,229,183)
Total expenses		**(10,541,468)**	**(5,992,714)**
Operating Income		**(3,778,747)**	**265,025**
Net financial expense	20	(478,332)	(1,806,331)
Impairment and gain/losses on sales of assets	7 y 8	1,460	(435,843)
Profit before tax		**(4,255,618)**	**(1,977,149)**
Corporate income tax	16	781,595	787,240
Profit from continued operations		**(3,474,023)**	**(1,189,910)**
Net profit from discontinued operations	19	**(563,257)**	**204,334**
Profit for the period		**(4,037,280)**	**(985,576)**
Profit attributable to minority interest		-	16,891
Profit attributable to the equity holders of the parent		**(4,037,280)**	**(1,002,467)**
Basic and diluted earnings per share	24	(0.1688)	(0.0415)
EBITDA		**(2,617,103)**	**1,494,208**

Notes 1-27 are an integral part of the consolidated income statement at December 31st, 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AT DECEMBER, 31st 2014 (In EUR)

Euro	12/31/2014		12/31/2013	
	Equity holders of the parent	Minority interest	Equity holders of the parent	Minority interest
Profit (loss) for the period	(4,037,280)	-	(1,002,467)	16,891
Income and expenses recognized directly in equity	(3)	-	(14,659)	-
Reclassification included in the income statement	-	-	-	-
Income tax impact	-	-	-	-
TOTAL COMPREHENSIVE INCOME RECOGNIZED	**(4,037,282)**	**-**	**(1,017,126)**	**16,891**

Notes 1-27 are an integral part of the consolidated statement of comprehensive income at December 31st, 2014

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT DECEMBER, 31st 2014 (in EUR)

Euro

	Notes	ISSUED CAPITAL	SHARE PREMIUM	RESERVES PARENT	RESERVES SUBSIDIARIES	TRANSLATION DIFFERENCES	TREASURY SHARES	RETAINED EARNINGS	PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	UNREALISED ASSETS AND LIABILITIES REVALUATION RESERVE	TOTAL EQUITY OF THE PARENT	MINORITY INTEREST	TOTAL
FINANCIAL POSITION AT DECEMBER, 12.31.2013		**2,445,677**	**9,570,913**	**918,423**	**(403,959)**	**43,072**	**(403,841)**	**(2,042,821)**	**(1,002,467)**	**(3,947)**	**9,121,049**	**338,153**	**9,459,202**
Adjustments due to mistakes 2013		-	-	-	-	-	-	-	-	-	-	-	-
ADJUSTED POSITION AT JANUARY, 01.01.2014		**2,445,677**	**9,570,913**	**918,423**	**(403,959)**	**43,072**	**(403,841)**	**(2,042,821)**	**(1,002,467)**	**(3,947)**	**9,121,049**	**338,153**	**9,459,202**
Total comprehensive income recognized		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,037,280)**	**(3)**	**(4,037,282)**	**-**	**(4,037,282)**
Transactions with shareholders		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Capital increases													-
Trading in treasury shares	12	-	-	-	-	-	-	-	-	-	-	-	-
Other movements in equity		**-**	**-**	**-**	**454,108**	**(43,072)**	**-**	**(1,461,351)**	**1,002,467**	**-**	**(47,848)**	**(338,153)**	**(386,001)**
FINANCIAL POSITION AT DECEMBER, 12.31.2014		**2,445,677**	**9,570,913**	**918,423**	**50,149**	**(0)**	**(403,841)**	**(3,504,172)**	**(4,037,280)**	**(3,950)**	**5,035,919**	**0**	**5,035,919**

Euro

	Notes	ISSUED CAPITAL	SHARE PREMIUM	RESERVES PARENT	RESERVES SUBSIDIARIES	TRANSLATION DIFFERENCES	TREASURY SHARES	RETAINED EARNINGS	PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE	UNREALISED ASSETS AND LIABILITIES REVALUATION RESERVE	TOTAL EQUITY OF THE PARENT	MINORITY INTEREST	TOTAL
FINANCIAL POSITION AT DECEMBER, 12.31.2012		**2,445,677**	**9,570,913**	**994,353**	**(190,440)**	**57,786**	**(403,841)**	**(3,131,606)**	**1,019,289**	**(4,003)**	**10,358,128**	**364,361**	**10,722,488**
Adjustments due to mistakes 2012		-	-	-	-	-	-	-	-	-	-	-	-
ADJUSTED POSITION AT JANUARY, 01.01.2013		**2,445,677**	**9,570,913**	**994,353**	**(190,440)**	**57,786**	**(403,841)**	**(3,131,606)**	**1,019,289**	**(4,003)**	**10,358,128**	**364,361**	**10,722,488**
Total comprehensive income recognized		**-**	**-**	**-**	**-**	**(14,714)**	**-**	**-**	**(1,002,467)**	**55**	**(1,017,126)**	**16,891**	**(1,000,235)**
Transactions with shareholders		**-**	**-**	**(185,793)**	**-**		**-**	**-**	**-**	**-**	**(185,793)**	**-**	**(185,793)**
Capital increases													-
Trading in treasury shares	12	-	-	(185,793)	-	-	-	-	-	-	(185,793)	-	(185,793)
Other movements in equity				**109,863**	**(213,519)**			**1,088,785**	**(1,019,289)**		**(34,161)**	**(43,099)**	**(77,260)**
FINANCIAL POSITION AT DECEMBER, 12.31.2013		**2,445,677**	**9,570,913**	**918,423**	**(403,959)**	**43,072**	**(403,841)**	**(2,042,821)**	**(1,002,467)**	**(3,947)**	**9,121,049**	**338,153**	**9,459,202**

Notes 1-27 are an integral part of the consolidated statement of changes in equity at December 31st, 2014

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT AT DECEMBER, 31st 2014 (In EUR)

A) CASH FLOWS FROM OPERATING ACTIVITIES	12/31/2014	12/31/2013
1. Profit before tax	**(4,818,875)**	**(1,747,123)**
2. Non cash adjustments for	**6,814,259**	**3,649,848**
a) Depreciation and amortisation charge	1,154,545	1,251,650
b) Non-current assets provisions	5,730,486	437,643
c) Results in non-current assets operations	(2,145)	-
d) Financial income	(152,208)	(31,917)
e) Financial costs	746,604	1,450,291
f) Exchange differences	(608,286)	455,533
g) Recognition of grants	(61,836)	(16,342)
h) Other income and costs	7,099	2,990
i) Changes in accruals	-	100,000
3. Changes in working capital	**(11,963)**	**468,062**
a) Trade and other receivables	2,031,736	2,781,867
b) Other current assets	79,612	(18,977)
c) Trade and other payables	(3,051,429)	(625,048)
d) Other current liabilities	1,078,396	(938,792)
e) Other non current assets and liabilities	(150,278)	(730,988)
4. Other cash flows from operating activities	**(169,919)**	**(1,198,468)**
a) Interest paid	(92,777)	(751,277)
c) Collections (payments) for corporate income tax	(70,272)	(344,631)
d) Other payments (collections)	(6,874)	(102,990)
e) Interest collect	4	430
5. Net cash flows from operating activities (1+2+3+4)	**1,813,502**	**1,172,319**
B) CASH FLOW FROM INVESTING ACTIVITIES		
6. Investments payments (-)	**(1,070,221)**	**(2,216,103)**
a) Investments in associates	(14,485)	-
b) Investments in companies, net of cash and equivalents acquired		-
c) Investments in intangible assets	(1,024,917)	(1,219,484)
d) Investments in property, plant and equipment	(5,346)	(9,370)
e) Investments in other financial assets	(25,473)	(987,249)
7. Investments proceeds (+)	**-**	**23,427**
a) Proceeds on financial investments in associates		
b) Proceeds on other financial investments	-	23,427
8. Net cash flows from investing activities (7-6)	**(1,070,221)**	**(2,192,676)**
C) CASH FLOWS FROM FINANCING ACTIVITIES		
9. Equity	**-**	**(185,792)**
a) Treasury shares acquisition	-	(404,187)
b) Proceeds from disposals of treasury shares	-	218,395
10. Financial liabilities	**(31,913)**	**(474,633)**
a) Issue	-	1,268,182
1. Proceeds from issue of debentures and bond		-
2. Proceeds from loans and borrowings	-	-
3. Proceeds from other liabilities	-	1,268,182
b) Repayments	(31,913)	(1,742,815)
1. Repayments of loans and borrowings	(4,128)	(565,213)
2. Repayments of other liabilities	(27,785)	(1,177,602)
11. Dividends and other equity instruments payments	-	**-**
12. Net cash flows from financing activities (9+10+11)	**(31,913)**	**(660,425)**
D) EFFECT ON EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS	(28,534)	(74,351)
E) NET INCREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)	**682,834**	**(1,755,133)**
Cash and cash equivalents at January, 1st	1,158,146	2,913,279
Cash and cash equivalents at December, 31	1,840,980	1,158,146

Notes 1-27 are an integral part of the consolidated cash flow statement at December 31st, 2014

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER, 31st 2014 (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 of them at international level.

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

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

				12/31/2014				12/31/2013			
				% Interest held		Voting rights		% Interest held		Voting rights	
Name and address	Legal status	Activity	Auditor	Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %
Sonocrew, S.L. Infantas 27, Madrid	Limited liability company	Music publisher	No	100%	-	100%	-	100%	-	100%	-
Producciones y Licencias Plaza de España, S.A. de C.V. Av Presidente Massaryk 61, piso 2, México D.F.	Variable capital firm	Explotation and management of audiovisual rights	No	0%	-	0%	-	100%	-	100%	-
Cake Entertainment, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	No	0%	-	0%	-	51%	-	51%	-
Cake Distribution, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	No	-	0%	-	0%	-	51%	-	51%
Cake Productions, Ltd 76 Charlotte St, 5th Fl, London	Private limited company	Explotation and management of audiovisual rights	No	-	0%	-	0%	-		-	
HLT Productions Bv Van der Helstlaan 48. 1213 CE Hilversum. The Netherlands	Private limited company	Explotation and management of audiovisual rights	No	-	0%	-	0%	-	51%	-	51%

All subsidiaries in the Group at year end have been consolidated using the full consolidation method.

The scope of consolidation underwent the following changes in 2014:

In 2013, the Parent Company has impaired 100% of the investment in Producciones y Licencias Plaza de España, S.A. de C.V. At December 31st 2014 Producciones y Licencias Plaza de España, S.A. de C.V. is under the final stage of liquidation.

The company Cake Entertainment, Ltd. is the parent Company of the group of three subsidiary companies: Cake Distribution, Ltd., Cake Productions, ltd., and HLT Productions BV.

We should stress that, in July 2014, the Parent Company has transmitted the whole of its shares in Cake Entertainment, Ltd. to those who up to then were the minority shareholders.

The transmission of those shares (which represented a majority percentage of 51%) is the consequence of a process launched by the minority shareholders of Cake under the title of “Deadlock Notice”, stipulated in the Shareholders Agreement signed by and between the parties and binding. Such process could only end by the acquisition or sale of the shares held by the other shareholders. And therefore, Zinkia's investment kept until then in Cake, has not ever been available for sale. The transmission of such investment is the consequence of an internal process among Cake's shareholders.

Cake's minority shareholders, considered the Parent Company's situation, had attempted previously to buy Zinkia's shares. That offer was rejected by the Company for it was considered to be completely out of the market.

The Parent Company, considering such offer, and in order to protect the value of its assets, considered as a good option acquiring the remaining shares of Cake Entertainment from its minority shareholders. Yet the Company's current situation made it impossible for it to offer a reasonable price to the minority shareholders for their corresponding shares in Cake Entertainment. The acquisition offer that Zinkia was able to offer to Cake's minority shareholders without risking its commitments of future payments was under the reasonable price of such shares. Given that this “Deadlock Notice” makes offers binding for the parties, the minority shareholders of Cake Entertainment increased the value of the offer until it overpassed slightly the amount offered by the Parent Company.

All things considered, the situation was analysed and both Zinkia and its Insolvency Administrator considered that accepting the offered launched by the minority shareholders guaranteed in the best possible way the rights of Zinkia's creditors as well as those of the very insolvent Company, since:

- The increase in the offer of the minority shareholders and the current insolvency situation together with the current insolvency situation and other considerations stated further on, it was considered that the income in the cash-flow of the amount offered by the minority shareholders was less risky for the creditors of Zinkia and for Zinkia itself, of all possible scenarios and, as a consequence, the offer was accepted (the acceptance always subject to a possible judicial intervention).

- The “Deadlock” process could only end with the acquisition or a sale of the shares that day, according to the best offer. The process, according to English law, is binding and cannot be stopped.

- It was not possible matching the conditions of the offer launched by the minority shareholders.

- The non-acceptance of the minority shareholders offer would have led Zinkia to a scene of absolute uncertainty wherein its cash-flow could have been seriously at risk and so would its future viability.

Thus, Zinkia has transmitted the whole of its shares in Cake Entertainment, Ltd. to the up to then minority shareholders. The transmission of such shares (which represented a majority percentage of 51%) represents for the Company a loss of approximately EUR 365,518.

Having in consideration the insolvency situation of Zinkia, the Company, together with the Insolvency Administrator communicated the operation to the court of the Mercantile nº 8 in Madrid, in case it were necessary or turned to be necessary the corresponding judicial statement according to the insolvency regulations.

For the above reasons the 2014 consolidated figures do not include the balances of Cake Entertainment and Subsidiaries resulting from the purchase of shares executed on the 30rd of July 2014 by means of which Zinkia Entertainment, S.A. sold 566 shares in Cake Entertainment, Ltd. to the then minority shareholders of Cake Entertainment, Ltd. These consolidated figures do not include either the balance of Producciones y Licencias Plaza España because that company is under the final stage of liquidation.

Note 19 in this consolidated report includes the information related to the exit from the scope of consolidation of the Cake Group.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

These Consolidated Financial Statements of the Zinkia Entertainment Group for year 2014 were formulated:

- By the directors of the parent company, Zinkia Entertainment, S.A., at Board of Directors' meeting held on March, 30^{th} 2015.

- 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, 31^{st} 2014 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, 31^{st} 2014 were prepared in accordance with International Financial Reporting Standards and International Accounting Standards applicable at that date.

At December 31st 2014, the following International Standards have not been applied by the Group for not being required to do so at the date of financial position statement since such standards have not been adopted yet by the European Union or because they might result applicable in future years:

- IFRS 9: Financial Instruments. It will be effective 1.1.2015
- IFRS 14: Regulated deferred statements. It will be effective 1.1.2016
- Modification IAS 19: Defined plans of benefits: Employers costs. It will be effective 1.1.2015

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.

- 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's 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 5,654,057 at December 31st2014 (EUR 2,412,052 at December 31st2013) caused mainly by the attention and maturity of the short term debt in the balance of the Group. Also the Consolidated Income Statement shows a negative result in 2014 of EUR 4,037,280 (EUR 985,576 at December 31st2013). Additional information is further detailed as follows:

f.1) *Renegotiation process*

As noted in the previous year-end and in the Interim Consolidated Financial Statements published in 2014, the Group, despite its business growth, contemplated difficulties in order to meet part of its payment obligations expected at maturity date. Therefore, during 2013, and among the different alternatives considered by the Company, a bond issue was initially conceived as a viable means to obtain additional funding, and thus, on April 18th 2013, Zinkia began before the CNMV the process of enrolment in the official records of the relevant Registration Document of the

Company, following Article 92 of the Law 24/1988 on the Securities Market. The Registration Document was approved nearly three months after its submission, on July 4th 2013, date of its official registration by Decision of the CNMV.

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

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

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

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

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

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

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

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

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

1. *Change of the writing-off date to maturity, originally scheduled for the third anniversary from the Date of issue, subscription and payment, that is to say November 12th 2013, and setting it on the fifth anniversary from the Date of issue, subscription and payment, that is to November 12th 2015.*
2. *Inclusion of the possibility of early writing-off by the Issuer in the first year, that is, on November 12th 2014, who will therefore proceed to pay the corresponding coupon until that date.*
3. *Modification of the fixed rate annually payable in the coupons to be paid in 2014 and 2015. The fixed rate changed from 9.75% to 11%.*

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

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

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

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

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

Although the Parent Company was successful in reaching a refinancing deal with the bondholders, with most of the commercial creditors, and although negotiations had been also successful with the different committees of banks which had already approved the refinancing operations, on the February 26th 2014 the Board of Directors of Zinkia decided to seek a declaration of voluntary arrangement with creditors due to the refusal of renegotiation by private lending institution regarding an amount of EUR 2,500,000 (Note 21).

On the 07th April 2014, the court issued finally the decision appointing the company ATTETS INTEGRA, S.L.P. as Insolvency Administration at the proposal of the Comisión Nacional del Mercado de Valores.

Such as it has been communicated in the Consolidated Financial Statements last year, the Company was already working in the update of the Viability Plan and in the elaboration of a Payments Plan to be offered to each group of creditors. Based on both documents and considering the information achieved in the interviews the Company had held with its creditors according to the 5BIS procedure, the Board of Directors of the Company decided in May to present an Advanced Proposal of Arrangement with Creditors (APAC) before the court of the Mercantile nº 8.

This Advanced Proposal of Arrangement with Creditors (APAC) does not entail reductions, reason why it has been well accepted among creditors, which at the time of its presentation before the mercantile court actually led to count already on the adherence of some of the main creditors, like financial entities and banks and the Spanish Public Administration, among some others. Also, in the 17th June 2014 took place the Bondholders Meeting wherein bondholders adhered the APAC presented by the Parent Company.

At July 11th 2014, and within the term imposed by the court, the Insolvency Administration stated its favourable opinion in its report on the APAC, which was presented by the Parent Company regarding the Payment Schedule and the Viability Plan.

As a consequence of all the above-mentioned, at 31st December 2014, the Parent Company expects to achieve a positive resolution regarding the APAC. The approval of the APAC by the court would allow the Company to overcome the circumstances it is currently going through, and satisfy its creditors in the terms of said APAC, while relaunching the Group's business development.

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

By decision of the court issued on the 7th April 2014, the Parent Company has been formally declared insolvent under arrangement with creditors, and therefore, from that date on and according to the insolvency regulations, the Parent Company cannot pay any debt whatsoever that was generated prior to the date of the court decision, for those debts are considered insolvency amounts.

This insolvency situation causes a very important part of the Group's liabilities, amounting to some EUR 13,500,000, to be the insolvent debt of the Parent Company, the maturity of which shall be fixed in the arrangement with the creditors finally approved.

f.3) Actions to generate liquidity.

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

In order to solve the deficit revealed in the financial resources, other alternatives for generating additional liquidity are being analysed, while negotiations with potential investors are still being held. The Parent Company, in spite of its insolvent situation, is still growing and working on the development of its business, and keeps increasing the income deriving from its business activities and minimising as much as possible the costs derived from those activities. Some of the actions implemented to generate liquidity are pointed as follows:

- Voluntary application by the Parent Company of entering the procedure of arrangement with creditors to be declared by the suitable court. As it has been mentioned before, all the debts that are previous to the declaration of Insolvency (7th April 2014) are considered insolvency debts and they shall be satisfied according to the payments schedule to be approved by the court. This has permitted the Parent Company to continue in business, facing the recurrent costs (the essential costs) allowing thus savings in the cash flow generation which shall afford the payment of the future payments derived from the arrangement with creditors.

- Increased revenue derived from the international expansion of the brand PCOYO and from the increase in the sales related to online presence and the management of digital rights, thus the cash generation is diversified since it comes from different countries and different lines of business.

  Even though the Parent Company is under the procedure of arrangement with creditors, the Group has increased its turnover compared to 2013. The commercial exploitation of content via the purchase of publicity in platforms of third parties (of the streaming type) has increased by 45% when compared to 2013. The average term for the payment of such sales is 45 days and therefore such increase has helped improve the Group's liquidity.

- The Group is continuing its policy of cost reduction by binding costs to the generation of income to the possible extent. In particular, the fixed costs are reduced to the minimum, and fixed commercial fees have been replaced with new agreements with success fees based exclusively on percentages on the sales actually achieved. This point will favour the generation of liquidity very positively.

- At present even though the Parent Company is subject to an insolvency procedure, it is still in the process of seeking funds to develop its business plan, considering many alternatives within reach.

However, it is important to stress that the Parent Company has elaborated a viability plan based exclusively on its own capacity to generate income without considering external funding. This plan has been accepted by the insolvency administrator, which backs up the forecasts of cash-flow generation to comply with the payment milestones proposed, while backing up, as well, the accomplishment of the going concern principle.

These activities are fully detailed in the management report presented by the Group.

The Directors of the Group consider that, if the Advanced Proposal of Arrangement with Creditors is approved by the court, this, together with the rest of the other activities that are being carried out, will lead the Group to obtain the financial resources and the necessary agreements to fulfil all of its obligations.

3. Accounting principles 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 2014 pursuant to the terms of the International Financial Reporting Standards adopted by the European Union and in force at 31st December 2014.

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.

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 3.5).

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

b) Licenses, 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.

At December 31st 2014, the consolidated figures do not include any goodwill as a consequence of the sales the shares in Cake Entertainment Ltd., as stated in note 1 in the present report.

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

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the 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.
  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.

  Notwithstanding the above, 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 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.

3.9 Treasury stock

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

3.10 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.

3.11 Severance payments

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.

Regarding certain employees of the Parent Company, there are special opt-out provisions set out under private agreement s that are complementary to their employment contracts.

In this sense, the severance payments of such employees could amount to 24 months' salary, in addition to and regardless of the severance pays due per year worked, should any of the conditions contained in those private agreements take place. These severance payments shall be recorded in the year when such circumstances are foreseen or actually take place.

The Group has no other obligations to employees.

3.12 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.

3.13 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 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:

<u>Minimum guaranteed incomes</u>: 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.

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.

3.14 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.

3.15 Income tax

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

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

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

Deferred tax liabilities are recognised for all temporary tax differences unless they arose out of the initial 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 carry forwards and deductions pending compensation) are only recognised if it is considered likely that the consolidated company will have sufficient tax earnings in the future to actually liquidate them.

At every year-end, 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.

3.16 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.

3.17 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.

At December 31st 2014, approximately 56% of the Group's turnover is generated in countries whose local currency is not euro, 54% represent U.S. dollar and the remaining 2% represents other currencies. At December 31st 2013 the percentage of revenue from countries whose local currency is not euro amounted to 68%, out of which 67% represented U.S. dollar. The Group has a bank account in U.S. Dollars which is used to receive receipts and order payments in that currency. The Group currently has no hedge mechanism against fluctuations in currency exchange rates. Therefore, Zinkia is exposed to fluctuations in exchange rates derived from the development of its activities in various countries outside the euro environment in which it operates, as well as from the potential changes that may occur in the various currencies in which the Group maintains its commercial debt. If the Company's turnover in other currencies grows, the Group's exposure to exchange rate fluctuations shall increase.

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

The exchange rate between the currency of the various countries where the Group operates and the euro has been subject to substantial fluctuations in recent years and, in the future, it could continue oscillating. At December 31st 2014, the impact of the exchange rates on the net financial income was a gain of EUR 608,286 although the financial turnover is a loss of EUR 478,332. At December 31st 2013 the impact of the exchange rate on the net financial income was a loss of EUR 455,533, which represented approximately 12% of the net financial income of the Group.

Details on monetary financial assets and liabilities are to be found in Notes 10 and 17 respectively.

(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 whole of the Group's financial liabilities are originated in the Parent Company. At December 31st 2014, Zinkia awaits the positive outcome of the Advanced Proposal of Arrangement with Creditors presented by the Parent Company before the court. This Advanced Proposal shall establish the new terms and conditions to which the debt will be subject. Therefore, the Group, at December 31st 2014 cannot classify the debt by interest rates since under the current conditions the contracts are void and null. At the previous year-end, 82% of the total debt of the Group was fixed-rated.

At December 31st 2013 the average debt interest rate of the Group was 6.66%.

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.

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.

The Group thinks there is no meaningful credit risk on its financial assets.

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

At December 31st 2014 the net financial debt (total financial debt less "Cash and equivalents") of the Group amounted to EUR 10,033,155. At December 31st 2013 this amount was EUR 10,120,208.

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

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

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

c) Liquidity risk

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

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

Such as indicated in Note 2f), the Group is currently facing an important problem of liquidity which led the Directors of Zinkia Entertainment, S.A. to take decision of entering voluntarily into a procedure of arrangement with creditors and the actions described in Note 2f) herein.

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 recognised 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 four companies as detailed in Note 1 herein. Its business is focused on the international distribution of series for children and family audience.

On June 1st, 2011 is performed takeover.

The percentage ownership was 51% of the equity with vote right.

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 2014 consolidated figures do not include the balance of Cake Entertainment and Subsidiaries resulting from the sale of all the shares of Zinkia Entertainment, S.A. to the then minority shareholders of Cake Entertainment, at July 03rd 2014, which amounted to EUR 356,518 (Note 1).

At December 31st 2014, the selling of all the shares has caused the Group to impair the goodwill generated by the acquisition of Cake's subgroup. This impairment is presented as part of the discontinued operations (Note 19) due to the exit of the subgroup from the consolidation scope. The goodwill changes are as follows:

Euro	**2014**	**2013**
Net value at beggining period	878,364	897,307
Impairment of goodwill from Cake Goodwill	(878,364)	
Net changes effect of exchange rates		(18,943)
Total	**-**	**878,364**

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 selling of the cash generating unit Cake such goodwill vanishes and Zinkia's is the only cash generating unit in the Group. The asset impairment test in Zinkia is individualised by assets and based on estimates of each asset fair value, it does not consider the whole cash generating unit.

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

In relation to Zinkia cash generating unit the hypothesis to estimate cash flows, derived from its three main sources of revenues, are as follows:

- **Production and exploitation of audiovisual and interactive content:** Zinkia mainly produces and distributes series, movies, video games and applications, which subsequently are licensed to television, etc., normally in return for a payment. Work in this direction is expected to go on.
- **Exploitation of brands:** Audiovisual content is registered as trademark with the aim of signing license agreements with third parties for the production and development of derivative or merchandising products in exchange for a payment based on royalties. Zinkia has taken the necessary steps to launch the exploitation of the U.S. and Canada, and therefore a significant increase in the cash flows is expected to arise from the signing of new agreements resulting from the exploitation of this source of income in these large territories.
- **Advertising business:** Upon broadcast and dissemination of its audiovisual content across different platforms, Zinkia proceeds to directly selling the advertising space available both in ZInkia's digital platforms as well as in third parties' platforms distributing Zinkia's

content. This revenue source is currently providing cash flow almost instantly, so Zinkia is working in enhancing this business line.

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

Projection period is five years.

The discount rate applied corresponds with the legal interest rate 4% since at December 31st 2014 Zinkia awaits the positive outcome of the Advanced Proposal of Arrangement with Creditors presented by the Parent Company before the court. This Advanced Proposal shall establish the new terms and conditions to which the debt will be subject. Therefore, the Group, at December 31st 2014 cannot classify the debt by interest rates since under the current conditions the contracts are void and null.

This discount rate is 6.66% the same rate as the previous year.

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

As stated in Note 2 f.1) herein, the Parent Company is currently subject to the arrangement with creditors procedure and the Group's Directors are awaiting the court's approval of the Advanced Proposal of Arrangement with Creditors and estimate that this, together with other activities that are being carried out, will lead to obtaining the financial resources and the necessary agreements in order to fulfil all the commitments of the Group.

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

7.2. Other Intangible Assets

The details and changes in the items under the Intangible Assets caption other than goodwill were as follows during 2014 and 2013:

Euro	Balance at 12/31/2013	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Balance at 12/31/2014
Cost						
Research and development	5,775,021	-	1,024,137	-	(1,590,012)	5,209,145
Intellectual property	13,662,680	-	-	-	1,590,012	15,252,692
Computer software	564,539	-	780	-	-	565,319
Intangible assets advances	-	-	-	-	-	-
Total	20,002,240	-	1,024,917	-	-	21,027,157
Accumulated Amortisation						
Research and development	(246,985)	-	-	-	-	(246,985)
Intellectual property	(10,306,691)	-	(1,104,826)	-	-	(11,411,517)
Computer software	(501,449)	-	(26,791)	-	-	(528,240)
Total	(11,055,125)	-	(1,131,618)	-	-	(12,186,743)
Impairment						
Development	(435,843)	-	-	-	-	(435,843)
Total	(435,843)	-	-	-	-	(435,843)
Total	**8,511,271**	**-**	**(106,701)**	**-**	**-**	**8,404,571**

Euro	Balance at 12/31/2012	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Balance at 12/31/2013
Research and development	6,351,594	-	1,209,088	-	(1,785,661)	5,775,022
Intellectual property	11,877,019	-	-	-	1,785,661	13,662,680
Computer software	516,370	-	10,396	-	37,773	564,539
Intangible assets advances	37,773	-	-	-	(37,773)	-
Total	18,782,756	-	1,219,484	-	-	20,002,241
Accumulated Amortisation						
Research and development	(246,985)	-	-	-	-	(246,985)
Intellectual property	(9,237,576)	-	(1,069,115)	-	-	(10,306,691)
Computer software	(465,533)	-	(35,916)	-	-	(501,449)
Total	(9,950,094)	-	(1,105,032)	-	-	(11,055,125)
Impairment						
Development	-	-	(435,843)	-	-	(435,843)
Total	-	-	(435,843)	-	-	(435,843)
Total	**8,832,662**	**-**	**(321,391)**	**-**	**-**	**8,511,271**

The additions in 2014 and 2013 refer primarily to work developed for the Playset and the Zinkia Croupier projects.

In 2014 transferrals amounting to EUR 1,590,012 corresponding to the finishing of applications (apps) have been placed under Industrial Property,

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

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

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

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

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

<u>Significant intangible assets</u>

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:

	Euro
SHURIKEN DEVELOPMENT	304,638
MOLA NOGURU DEVELOPMENT	1,617,384
FISHTAIL DEVELOPMENT	603,984
POCOYO DEVELOPMENT	1,330,588
OTHER DEVELOPMENT	19,668
PLAYSET DEVELOPMENT	422,609
ZINKIA CROUPIER DEVELOPMENT	227,447

For these developments the Group has considered the possibility of an impairment of the book value over fair value. In order to evaluate such possibility, the Group relied both on internal and external information sources. In relation to the external information sources, the Group has calculated the assets fair value applying a discount rate on their estimations.

The discount rate applied corresponds with the legal interest rate 4% since at December 31st 2014 Zinkia awaits the positive outcome of the Advanced Proposal of Arrangement with Creditors presented by the Parent Company before the court. This Advanced Proposal shall establish the new terms and conditions to which the debt will be subject. Therefore, the Group, at December 31st 2014 cannot classify the debt by interest rates since under the current conditions the contracts are void and null.

As there is not comparable market price because each production is different, the Group has taken on a value for their forecasts based on past experience and discussion with television companies. Therefore there are internal reports which support that the economic performance of these assets will meet the projected expectations.

In 2014 the Group has not impaired any projects. At year-end 2013 the Group has deteriorated some projects since it cannot determine whether they will be able to generate future cash flows and thus be economically successful.

Fully-amortised intangible assets

At December 31st 2014, there are fully depreciated assets valued at EUR 10,794,125 still in use which correspond to software and audiovisual projects.

At December 31st 2013, the Group has fully depreciated intangible assets valued at EUR 10,746,256 still in use which correspond to software and audiovisual projects.

Assets subject to guarantees and ownership restrictions

At December 31st 2014 and 2013, no intangible assets were subject to ownership restrictions or had been pledged to secure liabilities.

Grants received in relation to intangible assets

The Group has not received in 2014 any capital grants to develop its intangible assets.

The Parent Company received in 2013 capital grants amounting to EUR 35,750 for the development of the project Moving Pocoyo, and amounting to EUR 48,777 for the development of the project Zinkia Croupier. These grants are subject to the guarantee of complying with a series of requirements imposed by the respective Ministries in charge of each grant, and therefore the Parent Company, out of prudence, shall not transfer such amounts to its equity until it has actually complied with all the requirements and the amounts can be considered as non returnable.

At November 2013 the Parent Company was officially informed by the Ministry of Education, Culture and Sports that the grant amounting to EUR 60,000 which had been granted the previous year to the Parent Company for the development of the project Zinkia family & Kids IPTV had been recognised as definitive and so it was finally considered as non returnable.

In 2014, the Parent Company was officially informed by the Ministry of Education, Culture and Sports that the grant amounting to EUR 35,750 above-mentioned (Note 13) had been recognised as definitive. And so it is finally considered as non returnable and is included as the Group's equity herein.

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 12/31/2013	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Translations Differences	Balance at 12/31/2014
Cost							
Machinery	31,689	-	-	-	-		31,689
Other equipment	38,198	-	-	-	-		38,198
Furnishings	186,403	(110,341)	235	-	-	-	76,297
Data-processing equipment	189,444	(30,754)	5,111		-		163,801
Other PPE	35,203	(6,759)	-	-	-		28,444
Total	**480,937**	**(147,854)**	**5,346**	**-**	**-**	**-**	**338,428**
Accumulated Amortisation							
Machinery	(31,530)	-	(110)	-	-		(31,640)
Other equipment	(32,137)	-	(1,525)	-	-		(33,662)
Furnishings	(130,439)	74,019	(4,847)	-	-	-	(61,267)
Data-processing equipment	(167,266)	24,909	(13,405)	-	-		(155,762)
Other PPE	(36,356)	20,434	(3,040)	-	-		(18,962)
Total	**(397,727)**	**119,362**	**(22,927)**	**-**	**-**	**-**	**(301,293)**
Impairment	-	-	-	-	-		-
Total	**83,210**	**(28,491)**	**(17,582)**	**-**	**-**	**-**	**37,135**

Euro	Balance at 12/31/2012	Changes in scope of consolidation	Additions	Disposals or reductions	Transfers	Translations Differences	Balance at 12/31/2013
Cost							
Machinery	31,689	-	-	-	-		31,689
Other equipment	38,198	-	-	-	-		38,198
Furnishings	186,403	-	-	-	-	-	186,403
Data-processing equipment	186,834	-	2,610	-	-		189,444
Other PPE	28,444	-	6,760	-	-		35,204
Total	**471,568**	**-**	**9,370**	**-**	**-**	**-**	**480,937**
Accumulated Amortisation							
Machinery	(31,405)	-	(125)	-	-		(31,530)
Other equipment	(29,923)	-	(2,214)	-	-		(32,137)
Furnishings	(125,626)	-	(4,812)	-	-	-	(130,439)
Data-processing equipment	(153,103)	-	(14,162)	-	-		(167,266)
Other PPE	(13,084)	-	(23,271)	-	-		(36,356)
Total	**(353,141)**	**-**	**(44,584)**	**-**	**-**	**-**	**(397,727)**
Impairment	-	-	-	-	-		-
Total	**118,427**	**-**	**(35,214)**	**-**	**-**	**-**	**83,210**

<u>Impairment losses</u>

In 2014 the Yearly Consolidated Financial Statements do not include any fixed asset impairment losses. The same was true for the year before. (Note 3.5)

<u>Fully-depreciated assets</u>

At December 31st 2014 the Group has fully depreciated assets valued at EUR 230,649 still in use.

At December 31st 2014 the Group had fully depreciated assets valued at EUR 220,631 still in use.

<u>Property, plant and equipment subject to guarantees</u>

At December 31st 2014, no property, plant and equipment were subject to ownership restrictions or had been pledged to secure liabilities.

Commitments to purchase tangible fixed assets

At December 31st 2014 and 2013 the Group had assumed no commitments to acquire tangible fixed assets.

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 209,275 (EUR 251,330 for the same period the previous year).

At December 31st 2014, the Group has not non-cancellable operating leases.

Grants received in relation to property, plant and equipment

In 2014 and 2013 the Group has not received capital grants in relation to property, plant and equipment.

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	**12/31/2014**	**12/31/2013**
Non-current financial investments		
Equity instruments	300	26,383
Derivades assets	-	101,622
Total	**300**	**128,005**
Current financial investments		
Equity instruments	149	164
Other financial assets	1,115,847	1,012,497
Total	**1,115,996**	**1,489,327**

At December 31st 2014 the non-current financial investments include long-term deposits.

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

Among the current financial investments we find, on the one hand, EUR 135,493 that the Parent Company has deposited in cash in the General Deposit Financial Entity (Caja General de Depósitos) as a guarantee for the Ministry of Industry, Energy and Tourism, required in order to obtain the corresponding grant in the call for the “Strategic Action for Telecommunications and the Society of Information”, 2013 annuity, within the sub-programme “Strategic Action of Economy and Digital Society”. And on the other hand, and among other financial assets we also find a deposit corresponding to a guarantee of EUR 748,198 granted by another financial entity whose funds for the pledge were deposited by the parent Company. This guarantee was required by the Ministry of Industry in order to obtain funds corresponding to the call for “ Strategic Action for Telecommunications and Information Society”, 2012 annuity, within the Subprogram “Competivity, R+D”(Avanza programme). The rest of the item includes short-term deposits and securities established by the Group companies.

Equity instruments include the value of a small interest in a publicly listed companies.

At December 31st 2014 the Group has a deposit of restricted availability related to the bonds issuance of the parent company. The amount is EUR 209,937.

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

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

10. Trade and other receivable accounts

The detail of this caption on the Consolidated Statement of financial position at December 31st 2014 and December 31st 2013 is as follows:

Euro	12/31/2014	12/31/2013
Trade receivables	4,488,037	5,410,094
Trade receivables, long term	5,361,716	4,069,891
Accounts receivables	41,069	
Bad debt provision	(4,992,662)	(119,916)
Total	**4,898,160**	**9,360,068**

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

	12/31/2014	12/31/2013
Euro	1,653,489	1,601,736
Us dólar	3,218,654	5,924,427
Pound sterling		1,623,266
Australian dolar	26,017	150,719
Other currencies		59,920
Total	**4,898,160**	**9,360,068**

The amounts included in the item non-current assets are all domestic less the amount of the long-term trade receivables which are detailed below by geographic areas, Spain and Abroad in 2014 and 2013:

Market	12/31/2014	12/31/2013
Domestic	5%	3%
International	95%	97%
Total	**100%**	**100%**

The most relevant country in non-current clients is USA which amounts to EUR 1,262,675 (EUR 3,897,977 at 31st December 2013).

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

Furthermore, non-current trade receivables on the asset side include the customer balances with a maturity date longer than one year. This valuation involves a net increase of this item that amounts to EUR 2,365 and of the profit before taxation that amounts to EUR 117,953. This difference in the amounts is due to one of the trade receivables' being valued at amortised cost of EUR 4,604,833, which has been totally impaired in 2014, after the recording of its amortised cost.

At the previous year-end, such valuation meant a loss of EUR 452,687 both in the item of trade receivables as in the result before taxation.

Apart from the above-mentioned, at December 31st 2014, the Group had abandoned non-collectable accounts amounting to EUR 18. These receivables had been registered as doubtful debts in 2013. On the other hand, an impairment that had been recorded in 2013 as doubtful debt has reversed in EUR 7,919.

The amount of the impaired balances at year-end represents EUR 4,992,662 (EUR 119,916 in 2013). The variation corresponds on the one hand to what has been previously stated above, and, on the other hand, to the Group's recording as doubtful debts of EUR 4,880,682 in 2014, which corresponds mainly to the impairment of the CareersDiapers Llc. agreement. The Group has impaired such agreement as a precaution because although the commercialisation and management of the agreement is actually being executed, the actual delays in the business development make it likely that the payments deriving from such agreement might be delayed yet again. At present, Zinkia does not have the capacity to estimate when the payments deriving from such agreement shall be received. This is reason why the Directors have decided to record the impairment due to the uncertainty in the terms of such payments.

The rest of the impaired amounts under this item corresponds mainly to the pending payments of clients whose debt collection date is six-month overdue.

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

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

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

Also the Parent Company had been granted by the Social Security Treasury a delay on the amount of EUR 433,465 which has been guaranteed with the transfer of the economic rights of three clients. At year-end a receivable of EUR 624,730 corresponding to such clients is registered.

The voluntary entrance of the Parent Company in the Arrangement with Creditors procedure has led the Social Security Treasury to end such delay which was not in force at December 31st 2014. The guarantee bound to such delay is still in force.

Classification of financial assets (Notes 9 and 10)

	Euro					
	Non current financial assets					
	Equity instruments		Debt securities		Credits, derivatives, other	
	2014	2013	2014	2013	2014	2013
Available for sale assets	300	26,383	-	-	-	-
Loans and accounts receivables	-	-	-	-	1,565,282	4,171,510
Total non current	**300**	**26,383**	**-**	**-**	**1,565,282**	**4,171,510**
	Current financial assets					
	Equity instruments		Debt securities		Credits, derivatives, other	
	2014	2013	2014	2013	2014	2013
Assets held for trading	149	164	-	-	-	-
Held to maturity investments	-	-	-		-	-
Loans and accounts receivables	-	-	-	-	4,448,726	6,779,680
Total current	**149**	**164**	**-**	**-**	**4,448,726**	**6,779,680**
Total	**449**	**26,547**	**-**	**-**	**6,014,008**	**10,951,190**

11. Cash and other cash equivalents

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

Euro	12/31/2014	12/31/2013
Cash	1,840,807	1,158,007
Cash equivalent	173	139
Total	**1,840,980**	**1,158,146**

These reserves are freely available for distribution.

Total cash and other cash equivalents are included under the statement of effective cash-flow.

This item includes Group's cash ledger amounts denominated in the following currencies:

	2014	2013 *Euro*
Euro	1,065,519	479,833
Dólar US	775,144	439,928
Pound sterling	50	232,009
Yuan	75	4,283
Other currencies	193	2,092
Total	**1,840,980**	**1,158,146**

12. Equity

<u>Share capital</u>

At December 31st 2014 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 2014 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	12/31/2014	12/31/2013
Non-current financial liabilities	4,027,867	6,900,181
Current financial liabilities	7,846,269	4,378,173
Cash and cash equivalents	(1,840,980)	(1,158,146)
Net Debt	**10,033,156**	**10,120,208**
Equity of the parent	5,035,919	9,121,049
Equity of the parent	**5,035,919**	**9,121,049**
Leverage	**199%**	**111%**

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 2014 totalled EUR 330,475 (EUR 330,475 at December 31st 2013).

Other reserves

These include the reserves of the parent Company which stood at EUR 918,423 at December, 31st 2014 (same amount in 2013), and those of the subsidiary which totalled EUR 50,149 and EUR at December, 31st 2014 (EUR 403,959 at year end 2013).

Treasury shares

This year, the Parent Company has not carried out any transactions with its own shares.

At the previous year end changes under the heading of "Treasury Stock" on the Consolidated Statement of financial position were as follows:

Euro	Number of shares	Euro
Balance at January, 1st 2013	281,503	403,841
Additions	347,554	404,187
Disposals	(347,554)	(404,187)
Balance at 12/31/2013	**281,503**	**403,841**

The treasury stock in the Company's possession at December 31st 2014, represents approximately 1.15% (same value at year-end 2013) of the share capital with a nominal value of EUR 28.150 (EUR 28.150 at December, 31st 2013) and an average acquisition price of EUR 1.09 per share (EUR 1.09/share at December, 31st 2013). The average sale price of the Company's treasury stock at December 31st 2014 was EUR 1.75 per share (EUR 1.74 per share at December, 31st 2013).

The result of the purchase of treasury stock last year is a loss of EUR 185,793 recorded under Reserves.

Dividends

The Group did not pay any dividends in 2014 nor does it intend to do so. The same is true for 2013.

Minority interests

At December, 31st 2014 there are not minority shareholders. At the previous year-end the minority shareholders of Cake Entertainment Ltd. controlled 49% of that 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	11/6/2007
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	8/3/2010
Ministry of Culture	25,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	8/3/2010
Ministry of Culture	46,469	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2010	8/3/2010
Ministry of Culture	60,000	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2012	11/7/2012
Ministry of Culture	35,750	Grant to promote capital investment in modernization, innovation and technological adaptation of cultural industries for year 2013	9/11/2014

Grants have been recorded this year because they have been considered as non returnable. The loss recorded correspond to the application of the profits and to the tax effect after tax rate.

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

The detail of the movements at the end of 2014 compared to the previous year is as follows:

	Euro	
	12/31/2014	**12/31/2013**
Balance at 01/01/2014	154,515	130,978
Additions	50,001	64,086
Comprehensive p&l recognized	(61,836)	(16,342)
Other decrease	(4,107)	(24,207)
Balance at 12/31/2014	**138,573**	**154,515**

Long-term accruals

This long-terms accrual arises in 2012 as a result of the temporary application of income derived from the agreement signed for the development of content in educational *apps.* The Group invoices the applications following the terms of the agreement, yet the payment will be applied to the profit and loss account as the development of every application is completed and delivered. This account includes the applications that the Group estimates that will be delivered in the long term. The item includes the amortised cost value because it is a balance with a more than one-year maturity. Such valuation means a loss in this item of EUR 63,411.

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, every annuity is invoiced including the amount corresponding to the agreed blocks of apps developed. In accordance with the accounting standards applied by the Group, incomes from this project will accrue at the delivery of materials. This item will decrease according to allocation of incomes. In 2014 revenues were registered in the profit and loss account amounting to EUR 338,702 (EUR 1,248,256 at year-end 2013).

Additionally, this account includes two smaller amounts deriving from the agreements signed with a couple of clients whose payments will be recorded at the delivery of the materials compromised by Zinkia.

14. Financial liabilities

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

	2014		2013	
Euro	**Current**	**Non-current**	**Current**	**Non-current**
Debentures and bonds	2,517,229	-	33,049	2,238,000
Bank loans	1,536,404	317,511	1,296,396	555,917
Other payables to banks	92,889	-	168,679	92,842
Derivative	-	-	-	-
Participating loans	-	500,190	-	500,000
Other borrowings	3,699,746	3,210,166	2,880,049	3,513,422
Total	**7,846,269**	**4,027,867**	**4,378,173**	**6,900,181**

On November, 11th 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

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

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

Number of securities	2,238
Unit par value	1,000
Issue price	100%
Annual interest rate payable annually	11.00%
Amortisation of securities	12/11/2015
Amortisation system	Par

Finally, such as it was stated in note 2.f.1) the parent Company decided to file for the declaration of voluntary arrangement with creditors. The declaration of voluntary arrangement with creditors made the negotiation process with the main creditors null and void, until the arrangement is finally approved. The Parent Company has presented an Advanced Proposal of Arrangement that Bond holders have adhered together with other creditors, and at December 31 2014 it is to be approved by the competent judge, as required.

The procedure of the arrangement with creditors makes it impossible to analyse the liabilities above specified by their maturity since 100% correspond to the Parent Company.

Given the fact that 100% of the financial liabilities of the Group belong to the Parent Company, and because of its insolvency situation, it is not possible to establish an average debt rate updated for the Group. At the previous year end, the weighted average rate in the financial liabilities of the Group was 6.66%.

Financing Sources	Rate
Bonds issue	11.00%
Private Loan	9.75%
Financial entities and other	4.00%
Average weighted rate	**6.54%**

For the same reason it is not possible to distribute the debt of the Group according to their referenced interest rate since the conditions of the contracts are null and void.

At the end of the previous year, 82% of the debt was fixed-rated and the remaining 18% was variable.

15. Derivative financial instruments

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

At December 31st 2014 and 2013 the parent Company has signed a C.A.P. swap contract with an issue premium of EUR 3,950. This C.A.P., at the end of 2014 has a positive assessment of EUR 0. The notional principal of the interest rate on swaps outstanding at December 31st 2014 and 2013 amounted to EUR 200,000. This contract, just like all the others, is temporarily suspended.

At year-end 2013 fixed interest rate was 1.95%. The floating interest rate was 12M Euribor. Gains/ losses recognised in equity under “Adjustments due to change in values” for interest rate swaps contracts at June 30th 2014 will be transferred to the income statement.

16. Deferred taxes, income tax and other taxes

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

Euro	12/31/2013	Additions	Reductions	12/31/2014
Tax credits for tax-loss carryforwards	2,094,923	2,048	(492,819)	1,604,152
Other tax credits	3,224,279	1,337,033	-	4,561,312
Deferred tax assets	**5,319,202**	**1,339,081**	**(492,819)**	**6,165,463**
Temporary differences - amortisation	21,013	(1,570)	-	19,443
Reversal temporary differences - amortisation	(11,592)	(3,450)	-	(15,042)
Temporary differences-deferred income	54,574	(5,314)	-	49,260
Tax effect expense recognized in equity	-	-	-	-
Deferred tax liabilities	**63,994**	**(10,333)**	**-**	**53,660**

- Outstanding tax loss carry-forwards from previous years

DESCRIPTION	TO OFFSET	TERM
Tax loss carryforward FY 2013	1,343,042	2030/2031
Tax loss carryforward FY 2011	704,683	2029/2030
Tax loss carryforward FY 2010	3,014,994	2028/2029
Tax loss carryforward FY 2009	1,345,699	2027/2028
TOTAL	**6,408,418**	

- Outstanding double tax deductions from previous years

YEAR	DESCRIPTION	TERM	OUTSTANDING DED.	DEADLINE
2013	International (art. 31 C.I.T.)		89,693	2020
2012	International (art. 31 C.I.T.)		66,521	2019
2011	Intercompany (art. 30.1 and 3 C.I.T.)	-	1.14	2018
2011	International (art. 31 C.I.T.)	-	95,048	2021
2010	Intercompany (art. 30.1 and 3 C.I.T.)		1.50	2017
2010	International (art. 31 C.I.T.)		76,978	2020
2009	Intercompany (art. 30.1 and 3 C.I.T.)	-	1.61	2016
2009	International (art. 31 C.I.T.)	-	60,455	2019
2008	Intercompany (art. 30.1 and 3 C.I.T.)	-	2.11	2015
2008	International (art. 31 C.I.T.)	-	40,693	2018
2007	International (art. 31 C.I.T.)	-	32,672	2017
TOTAL			**462,068**	

- 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 comunicati	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 comunicati	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 comunicati	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 comunicati	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 comunicati	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 comunicati	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**	

– Temporary differences deductions pending from application from previous years

DESCRIPTION	BASE
Tax loss carryforward FY 2014	5,149,713
Tax loss carryforward FY 2013	333,861
TOTAL	**5,483,574**

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

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

At year-end 2014 the amount of EUR 1,337,033 is generated as deferred income. Such figure is due mainly to the adjustment in the corporate tax calculation of the impairment expense recorded regarding the trade credits derived from the possible insolvencies of some debtors (Note 10), as well as from the impairment of the loan that the Parent Company has granted to Jomaca 98, S.L., since according to the tax legislation such amounts are not deductible if, at the time of the tax accrual a six-month period has not passed since maturity of the debt or if the debtor is insolvent, as is the case of Jomaca 98, S.L. The deferred income deriving from such adjustments amounts to EUR 1,287,428.

In the same line, the Parent Company has activated the pending deductions that amount to EUR 68,325. This corresponds to the double taxation deductions in 2014.

At year end 2014 the Parent Company has abandoned fiscal credits amounting to EUR 492,819. This figure includes, on the one hand, the compensation of credits generated in 2009 amounting to EUR 143,665, since due to the above-mentioned adjustments the parent company has a positive tax base amounting EUR 574,660, and on the other hand, and as a consequence of what was stated in Note 1 herein regarding the changes in the Group during 2014, there is a negative adjustment of EUR 349,154 deriving from the basis recorded at the previous year-end at 25% which has reverted to 30%, and then changed again to 25%, since the exit of Cake of the group represents a change in the forecasts of the taxable rates of the Company, which leads the Company to estimate that this 25% tax rate will be compensated in the future. The taxable bases pending compensation at December 31st 2014 totalled EUR 6,408,417.

This adjustment in the rates brings on a loss of EUR 2,028 on the deferred assets which is caused by the pending tax reductions and credits which should be applied in order to record this asset at 25%. The same happens with the deferred asset caused by the limitation to the expenses in amortisation, it brings a loss of € 16,693 because of the rate change.

The Group considers recoverable tax credits in accordance with forecast figures submitted to the market, which have been calculated considering the meeting of a series of goals during the last years which guarantee an increase in the future value:

- Recovery of the trademark international distribution.
- Entry in the USA market via the three most important television platforms.
- Entry in the Italian, British, Turkish, Russian and South East Asian markets via the signing of new agreements with trade agents.
- Complete commercial cover of Latin America with a new structure of commercial agents.
- Reactivation of the Chinese markets.
- Launch of a new online commercialisation business line with merchandising license by means of the Company's own catalogue of products.

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

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

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

Euro	12/31/2014	12/31/2013
Consolidated profit before taxes	(4,255,618)	(1,977,149)
Non-deductible expenses and non-computable income	5,187,588	464,610
Adjusted accounting profit	**931,970**	**(1,512,539)**
Corporate income tax		116
Withholding taxes from income earned abroad	69,705	91,947
Deferred tax	(1,344,119)	(879,301)
Application of tax credit to offset tax loss carryforwards	492,819	-
Income tax expense	**(781,595)**	**(787,240)**

Due to Cake's exit from the Group all the income is derived from the same jurisdiction.

At 2013 year-end, conciliation between profit before tax and income tax expense at rate applicable is as follows:

Euro	12/31/2014	12/31/2013
Consolidated profit before taxes	**(4,255,618)**	**(1,977,149)**
Effective rate	-13%	-6%
Accrual expense C.I.T.	**558,387**	**111,926**
Non-deductible expenses effective rate effect	(902)	(5,723)
Reductions pending to apply	(1,339,081)	(893,443)
C.I.T.	**(781,595)**	**(787,240)**

The details of the debit and credit tax balances with tax authorities at December, 31st 2014 are as *follows*:

Euro	12/31/2014	12/31/2013
Deferred tax assets	1,370,893	83,465
Tax credtis for tax-loss carryforwards	4,794,569	5,235,737
Corporate income tax assets	-	4,343
Other tax receivable	4,005	51,788
Tax receivables	**6,169,468**	**5,375,333**
Deferred tax liabilities	53,660	63,994
Corporate income tax payable	-	113,009
Other tax payable	193,098	462,452
Tax payables	**246,758**	**639,455**

At year end 2014, the Parent Company has been granted an insolvent debt in favour of the Social Security amounting to EUR 363,689. Such figure corresponds mainly to the deferral granted to the Parent Company and to the social contributions corresponding to March 2014.

As stated in note 10 herein, the Company has pledged as security for such postponement, the economic rights of three clients. At year-end there is an amount of EUR 624,730 in the account of receivables related to these customers.

The Parent Company has not paid the amounts due to the Public Administration in accordance to the insolvency legislation in force, since such amounts are considered as insolvent debt and they will be paid according to the payment schedule to be approved in the coming months.

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	12/31/2014	12/31/2013
Suppliers of services provided	2,387,086	5,101,232
Other	36,997	24,852
Total	**2,424,083**	**5,126,084**

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

		Euro
	12/31/2014	**12/31/2013**
Euro	1,638,519	2,506,678
US dolar	750,581	2,151,248
Pound sterling	33,574	462,187
Yuan	1,409	5,971
Total	**2,424,083**	**5,126,084**

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 2014 and 2013 are as follows:

	12/31/2014		**12/31/2013**	
Euro	**Receivables**	**Payables**	**Receivables**	**Payables**
Trade payables				
José Mª Castillejo Oriol	-	28,058	-	-
Roatán Comunicaciones SL	-	76,907	-	59,926
Armialda, S.A	-	250,444	-	333,287
Loans, long term				
Other related parties	-	-	-	-
Loans, short term				
Other related parties	-	-	-	27,927
Short-term loans				
Jomaca 98, S.L.	-	-	476,666	-
Total	**-**	**355,409**	**476,666**	**421,140**

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.

The Company has decided to recognise 100% impairment on the guarantee granted by Jomaca, since the loan matured last December 31st 2013, because of Jomaca's insolvency, and because the Company, in its turn, turned also insolvent under the procedure of arrangement with creditors. Such guarantee accrued a rate of 7.5% payable at maturity. The amount of the accrued interest was also 100% impaired.

This impairment brings a lost on the Company's balance result of EUR 476,666.

The related-party transactions were as follows:

	12/31/2014		12/31/2013	
Euro	**Expenses**	**Incomes**	**Expenses**	**Incomes**
Jomaca 98, S.L.	3,000	-	-	31,422
José Mª Castillejo Oriol	208,000	-	-	-
José Carlos Solá Ballester	3,000	-	-	-
Roatán Comunicaciones SL	-	-	119,635	-
Armialda	25,000	-	312,500	-
HLT, Bv	-	-	152,640	-
Other related parties	-	-	2,545	-
Total	**239,000**	**-**	**587,320**	**31,422**

The related parties incomes and expenses are detailed as follows:

Mr. José María Castillejo is remunerated as CEO and, on the other hand and just like Armialda, he is also remunerated as for his services as business consultant for the Parent Company.

The expenses derived from Jomaca 98, S.L., and José Carlos Solá correspond to their payment of allowances for assisting to the meetings of the Board of Directors held in 2014.

Transactions with related entities take place under the regular trade terms and conditions of the market.

19. Discontinued operations

Due to the reasons mentioned under Note 1 herein, at July 03rd 2014 Zinkia Entertainment, S.A. signed a purchase contract of capital share with those who up to then were the minority shareholders in Cake Entertainment, Ltd. and who were transferred 566 shares in Cake Entertainment, Ltd. As a consequence of such transfer Zinkia Entertainment, S.A. sold the whole of its shares and effectively exited the Cake subgroup.

At December 31st 2014 the balance of discontinued operations includes the net effect of the departures from from Cake's Entertainment scope of consolidation.

The resulting analysis of the discontinued operations originated in Cake's Entertainment Subgroup is as follows:

Euro	2014	2013
Incomes	875,366	6,791,054
Expenses	(1,073,441)	(6,488,662)
Operating Income	**(198,075)**	**302,392**
Net financial expense	(884,256)	(72,366)
Profit before tax from discontinued operations	**(1,082,332)**	**230,026**
Tax	54,147	(25,692)
(*) Net assets (departure from the scope of consolidation)	**464,927**	**-**
Profit from discontinued operations	**(563,257)**	**204,334**

At December 31st 2014 the loss of the goodwill from Cake's subgroup, which amounts to EUR 878,364, is credited to "Financial Loss" under discontinued operations.

The Subgroup net assets departing from such consolidation scope at the date of the sale of shares are detailed as follows:

Euro	2014
NON-CURRENT ASSETS	**24,314**
Property, plant and equipment	24,314
CURRENT ASSETS	**3,450,714**
Trade and other receivables	3,338,414
Current financial investments	2,833
Current accruals and deferred income	27,274
Cash and cash equivalents	82,193
TOTAL ASSETS	**3,475,028**
NON-CURRENT LIABILITIES	**18,820**
Non current payables	18,820
CURRENT LIABILITIES	**2,991,281**
Current payables	134,597
Trade and other payables	2,856,684
TOTAL LIABILITIES	**3,010,101**

TOTAL NET ASSETS	**464,927**

Cake's Subgroup effective cash-flow departing the consolidation scope at the date of the sale of shares is detailed as follows:

	2014
CASH FLOWS FROM OPERATING ACTIVITIES	(88,636)
CASH FLOW FROM INVESTING ACTIVITIES	
CASH FLOWS FROM FINANCING ACTIVITIES	(108,104)

20. Income and expense

Net sales

The breakdown of this account for this period compared to 2013 is as follows:

Euro	2014	2013**
Content	1,078,582	1,855,638
Licensing	2,213,932	1,497,614
Advertising	2,384,234	1,679,057
Total	**5,676,748**	**5,032,309**

In compliance with IFRS 5 the Group has homogenised the figures of the consolidated income statement corresponding to 2013 with the aim of making that comparative information possible (Note 19)

The breakdown by geographic area is as follows:

Market	2014	2013**
Domestic	33%	25%
Abroad	67%	75%
Total	**100%**	**100%**

The most relevant countries in the item of revenues are the USA and Spain which totalled respectively EUR 1,328,792 and EUR 1,483,335. Both in the case of the USA and Spain the amounts are focused on one client. Last year the USA stood out as relevant country regarding the regular revenues and the amounts were focused on two clients.

Other operating revenues

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

Euro	2014	2013**
Own work capitalised	1,024,137	1,209,088
Allocation of grants	61,836	16,342
Total	**1,085,973**	**1,225,430**

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

Raw materials and consumables

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

Staff expenses

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

Euro	2014	2013**
Wages and salaries	1,875,219	1,629,135
Compensations	330	14,213
Employer social security costs	490,609	437,665
Other expenses	2,667	3,227
Total	**2,368,824**	**2,084,239**

The breakdown by professional category and gender is as follows:

CATEGORY	2014		2013	
	Men	Women	Men	Women
5-YR DEGREE HOLDER	6	14	6	17
3-YR DEGREE HOLDER	3	1	3	1
SR.MANAGER	1	1	4	1
MANAGER 1	-	-	-	-
MANAGER 2	2	-	2	-
OFFICIAL 1	7	1	7	1
OFFICIAL 2	1	-	1	-
ASSISTANT	-	2	-	2
PROGRAMMER	-	-	-	-
OPERATOR	4	1	4	3
GRANT HOLDER	-	1	-	-
CHARWOMAN	-	1	-	-
Total	**24**	**22**	**27**	**25**

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

External services

The composition of this caption is as follows:

Euro	2014	2013**
Operating leases	209,275	251,330
Independent professional services	1,243,903	1,672,420
Other expenses	412,680	593,240
Impairment losses on commercial transactions	4,888,480	23
Total	**6,754,338**	**2,517,013**

Depreciation and provisions

The composition of this caption is as follows:

Euro	2014	2013**
Intangible asset depreciation charge	1,131,618	1,105,031
Property, plant and equipment depreciation charge	22,927	24,152
Other provisions	7,099	100,000
Total	**1,161,644**	**1,229,183**

At 31st December 2013 a provision amounting to EUR 100,000 corresponding to the administrative decision of the CNMV was credited in "Other provisions".

Financial income and expense

The specifics of this item are as follows:

Euro	2014	2013**
Other	152,208	31,902
Exchange profit	710,846	105,125
Finance Income	**863,054**	**137,027**
Finance and similar costs	(746,604)	(1,398,330)
Exchange profit/losses	(102,560)	(540,238)
Impairment financial assets	(492,222)	(4,790)
Finance Cost	**(1,341,386)**	**(1,943,358)**
Net financial expense	**(478,332)**	**(1,806,331)**

Financial incomes are totally due to the debts of the Group classified under the heading Loans and receivables.

The impairment in the table corresponds to the loan that the Group had granted to Jomaca 98, S.L. The Group has decided to recognise 100% impairment because of Jomaca's insolvency. Such guarantee accrued a rate of 7,5% payable at maturity. The amount of the accrued interest was also 100% impaired.

This impairment brings a lost on the Company's balance result of EUR 476,666.

21. 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 follows:

- 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 2014, there were no conditions mentioned above to implement the plan, so no need to recognise 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.

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

Concerning this operation, the number of shares acquired amounted to 206,881, and their market value at December 31st 2014 was EUR 99,303 and EUR 148,954 at year-end 2013.

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

22. Contingencies and guarantees

In 2014, the Group has not registered any provision. This is due to the advice both of our legal department and our external law firm representing the Company, since they all estimate that the risk taken by the Group is low. On the date of preparation of these Annual Consolidated

Statements, it is not as yet possible to estimate the economic impact, if any, deriving from those events.

At year-end in 2013, the Group had registered a provision amounting to EUR 100.000 corresponding to the administrative decision issued by the CNMV by virtue of a penalty process. In 2014 this provision is kept since it has been published.

At year-end, the Group has the following guarantees:

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

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

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

23. Director and senior management compensation

Remuneration of the members of the Board of Directors

In 2014 remuneration of the members of the Board of Directors for sitting on the Board amounted to 99,000€

In 2013 the members of the Board of Directors received no remuneration for sitting on the Board.

In 2014, as in 2013, 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 period.

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 some members of the Board a plan for long-term variable remuneration consisting of the delivery of shares.

Compensation and loans to senior management personnel

During 2014, the remuneration received by management senior staff who are not members of the Board of Directors to carry out tasks of senior management in the parent Company amounted to EUR 202,000. The remuneration received in 2013 totalled EUR 193,642.

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

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

Article 229 of the Spanish Capital Companies Act in force (the consolidated text of which was ratified by Royal DecreeLaw 1/2010 of 2 July.) as worded in Law 31/2014 (December 3rd), whereby the Stock Market Act and the Spanish Capital Companies Act were amended to increase transparency in listed companies and improve corporate government, 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: Mr. José María Castillejo Oriol is the Director of the company Sonocrew, S.L. This position in the Company was unremunerated. Additionally, the Director of the Parent Company, Mr. José Carlos Solá Ballester is manager and main shareholder of an audiovisual producer called Cien por Cien Cine, S.L. as well as manager and shareholder in Traveltrain TV Spain, S.L.

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

The members of the Board of Directors have not communicated any direct or indirect conflict situation they might hold against the Company, such as established in article 229,3 in the Spanish Capital Companies Act.

24. Environmental information

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

In 2014, there were no major environmental expenditures.

25. 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	12/31/2014	12/31/2013
Profit Attributable to the equity holders of the parent	(4,080,083)	(1,002,467)
Average number of shares during the year	24,445,677	24,445,677
Average number of treasury shares held	(281,503)	(281,503)
Average number of shares outstanding	24,164,174	24,164,174
Basic earning per share (euros)	**(0.1688)**	**(0.0415)**

<u>Diluted earnings per share</u>

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 Group Zinkia Entertainment has not issued any instruments of this kind, so the basic earnings per share match the diluted earnings per share.

26. Auditors' fees

The professional fees for auditing individual and consolidated annual financial statements for the Company in 2014 totalled EUR 9,227, additionally, the amount of EUR 8,072 was paid for other auditing services (semester review in 2014).

The professional fees charged by Garrido Abogados y Asesores Fiscales, S.L. In 2013 amounted to EUR 9,500, additionally, the amount of EUR 8,847 was paid for other auditing services (semester review in 2013).

The professional fees charged by Garrido Abogados y Asesores Fiscales, S.L. amounted to EUR 34,017 in the same period last year. These fees amounted to EUR 41,160 in the previous year.

27. Events after the Financial Statement date

There are no meaningful events after year-end.

28. 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, we should stress that approximately 98% of the trade credits recorded in the balance of the Company at 31st December 2014 correspond to the insolvency debt, the payment of which must await the approval of the arrangement with the creditors which is to fix the different maturities. For this reason we cannot apply the analysis of period payment required under this caption. As to the remaining 2% of the trade creditors that are part of the balance, we have to stress that they correspond to recurring services for the current period and aimed at the business of the Parent Company and the payment of which does not exceed the legal term.

In 2014 the Parent Company has paid trade creditors up to EUR 1,970,114, out of which 15% exceeded the legal term established. The weighted average term of exceeded payment is 216 days.

At the previous year-end the suppliers held pending payments against the Parent Company which exceeded the legal term of EUR 1,502,342. In 2013 the Parent Company paid suppliers the amount of EUR 3,192,890 out which 48% exceeded the legal term established. The payments exceeded weighted term reached 293 days.

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

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

Signed Consolidated Financial Statements

These Consolidated Financial Statements are signed by the members of the Board of Directors, at the time of the preparation of such statements during the Board of Directors meeting held in Madrid on March, 30th 2015.

ZINKIA ENTERTAINMENT, S.A. AND SUBSIDIARIES
CONSOLIDATED DIRECTORS' REPORT 2014

Business Performance and Company Situation

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

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

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

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

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

On the 07th April 2014, the court issued finally the decision appointing ATTETS INTEGRA, S.L.P. as Insolvency Administration for the Parent Company at the proposal of the Comisión Nacional del Mercado de Valores.

Such as it has been communicated in the Annual Accounts last year, the Group was already working in the update of the Viability Plan and in the elaboration of a Payments Plan to be offered to each group of creditors. Based on both documents and considering the information achieved in the interviews the Parent Company had held with its creditors according to the 5BIS procedure, the Board of Directors of the Parent Company decided in May to present an Advanced Proposal of Arrangement with Creditors (APAC) before the court of the Mercantile nº 8.

This Advanced Proposal of Arrangement with Creditors (APAC) does not entail reductions, reason why it has been well accepted among creditors, which at the time of its presentation before the mercantile court actually led to count already on the adherence of some of the main creditors, like financial entities and banks and the Spanish Public Administration, among some others. Also, in the 17th June 2014 took place the Bondholders Meeting wherein bondholders adhered the APAC presented by the Company.

At July 11th 2014 and within the term granted by the court, the Insolvency Administration filed its positive report on the content of the APAC presented by the Parent Company regarding the Payments Schedule and the Viability Plan.

As a consequence of the above, at December 31st 2014 the Parent Company expects to achieve a positive resolution to the APAC presented. The approval of the APAC by the court would allow the Parent Company to overcome the circumstances it is currently going through, and satisfy its creditors in the terms of said APAC, while relaunching the Parent Company's business development.

In spite of being subject to an insolvency procedure, the Parent Company keeps growing and developing its business, considerably increasing the revenues generated out of its activities and minimising to the maximum the costs deriving from such business activities.

In 2014 the great increase in the Group's sales raised 13% compared to the same period last year. This increase in the sales is the consequence of the business evolution and growth.

As to the degree of compliance with the projections published, Zinkia has reached 55% of the estimated sales for 2014. The evolution regarding 2013 is analysed as follows together with the compliance degree with the projections for 2014 by business line.

Regarding the content, sales have been 42% inferior to the previous year, representing 40% of the figures estimated for 2014. This item includes sales originated in the commercial exploitation of the audiovisual content in different platforms (television, apps downloads, etc.). In the same way, the item includes the amounts received by the project of aps production for the Government of the USA. The deviation regarding the estimated amounts are focused on this las project. Zinkia is producing these apps in collaboration with a American non profit organisation. The Company is paid for each app delivered according to the production schedule established, and the sale is registered at the time of delivery. In 2014 nine apps were estimated to be delivered. Zinkia's production has been subject to the continuous delays in the referred organisation, which has affected the established production schedule. As a consequence the number of the apps finally delivered has been smaller and therefore also the sales linked to them. The delivery and, therefore, the sales originated in the apps the production of which has been delayed will take place in 2015.

The largest increase in the different business lines is found in the category of Licensing & Merchandising, with an increase of 48% compared to the previous period. This growth is the consequence of the commercial exploitation and the international expansion of the trade name POCOYO™. As to the total estimated sales under this category in 2014, the target amount has been reached by 50%

The insolvency situation the Parent Company is going through and which was expected to be solved in 2014 has affected the company negatively. Zinkia keeps expanding internationally, enlarging its network of partners and trade agents, thus entering new markets. Many negotiations have been affected by the insolvency situation and have been delayed because the positive resolution to the arrangement with the creditors was not issued in the estimated date.

In other revenues from the exploitation we find the activated amount of the works made by the Company itself to develop and produce its interactive audiovisual projects.

Zinkia is still controlling costs. Regarding the estimates for 2014, the costs have been less than was estimated, except for the registration of the assets impairment of the group, which have increased considerably the estimated costs.

The staff expenses have increased 14% because the staff was enlarged compared to the previous period. The recruitment was the minimum possible, based on business needs, and related mainly to the production department, regarding the necessary and indispensable resources to meet the time schedules in the production of the educational apps currently under development. However the cost has been inferior to the initial estimated for the year.

“Other exploitation expenses” has been increase by 168% compared to the previous period. This item represents the costs of assessors, consultants and, mainly, the trade commissions. As it can be read in the following details, the recurring costs have been inferior to last year and inferior to what estimated. This decrease is due to the cost control already mentioned above. However, the total amount of the item has been superior to 2013 and to the estimates because of the commercial transactions credit impairment record, which had been foreseen.

Zinkia has recorded in its statements a impairment related to the receivable derived from the agreement signed with CareersDiapers Llc. The Parent Company has impaired such agreement as a precaution because although the commercialisation and management of the agreement is actually being executed, the actual delays in the business development make it likely that the payments deriving from such agreement might be delayed yet again. At the present of this statements, Zinkia does not have the capacity to to estimate when the payments deriving from such agreement shall be received. This is the reason why the Directors have decided to record the impairment due to the uncertainty in the terms of such payments.

This above-mentioned impairment does not affect the Payment Schedule compromised by the Parent Company within the procedure of the arrangement with the creditors, because although there is a chance that the payments of this licensee might be delayed, the Parent Company is capable of complying with the payment commitment according to the forecast for the coming years.

€	2014	2013
Independent professional services	430,376	667,490
Impairment of trading financial assets	4,888,481	23
Other general expenses	1,435,481	1,849,500
TOTAL	**6,754,338**	**2,517,013**

As to the financial result, financial income are originated in the amortised cost value of the long-term receivables, as well as, to a larger extent, in the positive differences in exchange due to the evolution of the US Dollar.

As to the financial expenses, Zinkia, and as it has already been stated, was declared to be in arrangement with the creditors last April 7th 2014. The Insolvency Act in provision 59 establishes that the accrual of interests, be legal or conventional, is suspended without prejudice to the exceptions under such rule.

The Institute of Accounting and Account Audits, in its decision dated October 18th 2013, explained that it considered that said suspension is merely procedural / insolvency-wise and that, according to the on-going concern, the accrual of such interests should be recorded in spite of the procedure of arrangement with the creditors.

Zinkia therefore is facing a situation wherein the Insolvency Act and the ICAC (Spanish Accounting and Audit Institute) have established different criteria regarding this particular issue. The Company awaited the positive resolution regarding the APAC that was presented within the procedure of arrangement with the creditors and which does not contemplate the payment of interests (except for those already accrued and unpaid before April 7th following the Insolvency Act), and therefore, additional interests are not recorded. This is the reason why the Parent Company esteemed fit not recording interests after the date of the declaration of the Arrangement with the creditors, and not including such costs in the projections. However, since the arrangement with the creditors procedure is being delayed, the Directors of the Parent Company have decided to record the interests until December 31st 2014 according to the ICAC.

The amount recorded in the item “Impairment and loss of assets”, which is part of the financial result, corresponds with the impairment recorded in relation with the receivable of the Parent Company Jomaca 98, S.L., derived from a loan agreement. The Parent Company, out of precaution and because of the arrangement with the creditors of this Parent Company, has decided to record an impairment in this item amounting to the total of the receivable.

The Working Capital presents a negative figure amounting to EUR 5,654,057 at December, 31st 2014. The long and short-term debts are part of Zinkia's insolvent debt. Since the APAC has not been solved in 2014 the debt is recorded with the original maturity of each loan, be it at long or short term. The Parent Company, as it has been stated, is subject to an insolvency procedure since last 7th April 2014. An Advanced Proposal of Arrangement with Creditors has been presented with the corresponding viability plan and payments plan. The evolution of the working capital shall depend on the outcome of the said APAC. The Parent Company expects to achieve a positive resolution regarding the APAC. The approval of the APAC by the court would allow the Company to overcome the circumstances it is currently going through, and satisfy its creditors in the terms of said APAC, while relaunching the Parent Company's business and improving the financial position in the short term since most of the debt has therefore been set as long-term.

Zinkia, with the authorisation of the Insolvency Administrator, transmitted in July 2014 the total of its shares in Cake Entertainment, Ltd. to the up to the minority shareholders of that company. The transmission of those shares (which amounted to a majority percentage of 51%) is the consequence of a process launched by the minority shareholders of Cake under the title of “Deadlock Notice”, stipulated in the Shareholders Agreement signed by and between the parties and binding. Such process could only end by the acquisition or sale of the shares held by the other shareholders. And therefore, Zinkia's investment kept until then in Cake, has not ever been available for sale. The transmission of such investment is the consequence of an internal process among Cake's shareholders.

The directors considered la transmission of shares as the most positive option regarding cash-flow. Having in consideration the insolvency situation of Zinkia, the Company, together with the

Insolvency Administrator communicated the operation to the court of the Mercantile nº 8 in Madrid, in case it were necessary or turned to be necessary the corresponding judicial statement according to the insolvency regulations.

Events after the date of these Financial Statements

There are no meaningful events after year-end.

Outlook for the Company

The Parent Company estimates that, if the court approves the Advanced Proposal of Arrangement with Creditors, the Company shall be capable of reaching the expected results for the coming years and this will afford to continue on with the Company's business and to accomplish all the payment commitments.

For the year 2015 and the following, a substantial increase is expected in the turnover of the Company based on the introduction of POCOYO™ into new markets, the increase of business lines regarding content and advertisements, as well as the developing of new audiovisual content and brands.

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

Research & Development

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

Financial Risk Hedging

At December 31st 2014, and as it has been mentioned above, all of the Parent Company's debt is awaiting the favourable outcome of the arrangement with the creditors, which shall establish the new conditions to which the debt shall be subject. And therefore the Parent Company cannot classify the debt by interest rates. At the previous year-end, 82% of the total amount of the debt of the Parent Company was fixed-rated.

At the previous year-end the average interest rate was 6.66%

Acquisition of treasury shares

At December 31st 2014, the Parent Company has not made any transaction with its treasury shares.

At December 31st 2014, the Parent Company's treasury shares represent approximately 1.15% (1.15% at December 31st 2013) of the share capital with a total face value of EUR 28,150 (EUR 28,150 at December 31st 2013), and an average acquisition price of EUR1.09 per share (EUR1.09 at December 31st 2013). Also, the average sale price of the treasury shares at June 30th 2014 is EUR 1.75 per share (EUR 1.75 at December 31st 2013).

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

ISSUER IDENTIFICATION

YEAR-END REFERENCE DATE 31st DECEMEBER 2014

C.I.F. A82659061

Company name: ZINKIA ENTERTAINMENT S.A.

Company address: CALLE INFANTAS 27-28004 MADRID

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

A.- OWNERSHIP STRUCTURE

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

NIF or CIF	Name or company name of the shareholder or holding	% over capital share
02310993E	MIGUEL FERNANDO VALLADARES GARCIA	11.20
B82158379	JOMACA 98, S.L.	64.71
05257311V	ALBERTO DELGADO GAVELA	3.75

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

NIF or CIF	Name of company	Type of relation	Brief description

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

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

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

YES **NO**

Description of restrictions
None

B.- SHAREHOLDERS MEETING OR EQUIVALENT BODY

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

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

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

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

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

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

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

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

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

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

The Company's Statutes in force during 2014 differ from some provisions in the Companies Act after its last reform wherein it is established a general scheme of simple majority understood as more votes in favour than against, in order to adopt resolutions.

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

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

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

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

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

A General Shareholders Meeting took place on 11th February 2014, and the following resolutions were submitted to the approval of the Shareholders, and were actually approved by the following favourable votes:

First.- *Delegation to the Board of Directors of the power to issue on one or more occasions, bonds and/or debentures convertible into new shares of the Company and/or exchangeable for shares of the Company. Setting the criteria for determining the basis and types of exchange. Delegation of powers.*

Approved by 81.29% votes.

Second.- *Delegation of powers to supplement, develop, execute, rectify and formalise the resolutions adopted by the General Meeting.*

Approved by 81.29% votes.

Third.- *Mr. Alberto Delgado Gavela ceased to be member of the Board of Directors.*

Approved by 79.72% votes.

Fourth.- *ANGEL- MARTÍN ORTIZ ABOGADOS, S.L. ceased to be a member of the Board of Directors.*

Approved by 79.72% votes.

Also a General Shareholders Meeting took place on 26th June 2014, and the following resolutions were approved by the Shareholders, by the following percentage of votes:

First.- *Examination and approval, where possible, of the Annual Financial Statements (Balance sheet, Income, Change in Equity, Cash-Flow and Memoir) and Management Reports, corresponding to ZINKIA ENTERTAINMENT, S.A. and its consolidated Group in 2013.*

Approved by 81.53% votes.

Second.- *Examination and approval, when applicable, of the proposal of distribution of the year's result.*

Approved by 81.53% votes.

Third.- *Examination and approval, when applicable, of the Board of Director's management.*

Approved by 81.53% votes.

Fourth.- *Reelection of the Company's and its consolidated Group's auditor*

Approved by 81.53% votes.

Fifth- *Reelection and appointment of the Directors. Setting of the number of members of the Board of Directors.*

5.1. Reelection as member of the Board of Directors for the statutory term of five(5) years of Mr. José María Castillejo, who will also qualify as Executive Director.

Approved by 78.59% votes.

5.2. Reelection as member of the Board of Directors for the statutory term of five(5) years of JOMACA 98, S.L., who will also qualify as Proprietary Director.

Approved by 81.53% votes.

5.3. Reelection as member of the Board of Directors for the statutory term of five(5) years of Mr. José Carlos Ballester, who will also qualify as Independent Director.

Approved by 81.53% votes.

5.4. Setting of the number of members in the Board of Directors of the Company to three (3).

Approved by 81.53% votes.

Sixth.- *Setting of the remuneration of the Board of Directors.*

Approved by 78.37% votes.

Seventh.- *Approval of the Advanced Proposal of Arrangement with Creditors*

Approved by 81.57% votes.

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

Approved by 81.57% votes.

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

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

http://www.zinkia.com/es/accionistas-inversores/

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

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

Given the economic situation of the Company, its declaration as Voluntary Arrangement with Creditors April 07th 2014, and its filing of the Advanced Proposal of Arrangement with the Creditors before the competent judge at April 11th 2014, the Company proceeded to call for a Bondholders Meeting,which was scheduled to be held at the Barbieri room of the Hotel Lusso Infantas, located at calle Infantas 29 of Madrid on May 16th 2013, at 12:00 pm on first call, and at the same time and in the same venue, on June 17th 2013, on second call, with the following agenda:

First.- Information on the insolvency procedure of the Company Relevant aspects for the Bondholders. Resolutions adopted, when applicable.

Second.- Adherence to the Advanced Proposal of Arrangement with the Creditors elaborated by the Company. Resolutions to be agreed upon.

Third.- Delegations of powers to the Commissioner regarding the activities to be performed on behalf of the Bondholders within the insolvency procedure.

Fourth- Delegation of Powers.

- Such Meeting was held on second call, deed of it was written, and the following resolutions were approved:

First.- Information on the insolvency procedure of the Company Relevant aspects for the Bondholders. Resolutions adopted, when applicable.

Approved by 100% votes.

Second.- Adherence to the Advanced Proposal of Arrangement with the Creditors elaborated by the Company. Resolutions to be agreed upon.

Approved by 100% votes.

Third.- Delegations of powers to the Commissioner regarding the activities to be performed on behalf of the Bondholders within the insolvency procedure.

Approved by 100% votes.

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

Approved by 98,88% votes.

C ENTITY'S MANAGEMENT STRUCTURE

C.1 Board or managing body

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

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

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

BOARD DIRECTORS/MEMBERS OF THE MANAGING BODY

Director NIF or CIF	**Name or company name of the director/ managing body member.**	**Representative**	**Last date of appointment**
00.397.125-F	José Maria Castillejo Oriol		06/26/14
B-82158379	Jomaca 98, S.L.	Julio Covacho López (002253830Z)	06/26/14
31235121-V	José Carlos Sola Ballester		06/26/14

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

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

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

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

C.1.5 Complete the following table regarding the aggregated remuneration of the Directors or members of the management body, accrued during the year:

	Thousands of euros	
Remuneration Concept	**Individual**	**Group**
Fixed Remuneration	**90**	**0**
Flexible Remuneration	**0**	**0**
Allowances	**9**	**0**
Other Remuneration	**0**	**0**
TOTAL:	**99**	**0**

(*) Mandatory field. The figures in thousands of euros admit no decimals

C.1.6 Identify those members of the senior management who are not at the same time Directors or members of the executive management body, and specify the total remuneration accrued in the year:

NIF or CIF	Name or Company Name	Position
002253830Z	JULIO COVACHO LOPEZ	GENERAL MANAGER
07496832M	LOREA GARCIA JAUREGUI	SECRETARY GENERAL / DIRECTOR OF THE LEGAL DEPARTMENT AND HUMAN RESOURCES

Total remuneration of senior management (thousands euros)	202

C.1.7 Specify of the Company's statues or the rules of the Board of Directors establish a limited number of mandates for the Directors or members of the management body:

Maximum number of year mandates	0

YES NO

C.1.8 Specify whether the annual individual and consolidated financial statements presented to the approval of the board of directors or management body are previously certified:

YES NO

Specify, if any, the person/s who has/have certified the annual individual and consolidated financial statements to be prepared by the board of directors or management body:

NIF	Name	Position

C.1.9 Explain, when applicable, the mechanisms established by the board or body of management in order to prevent the individual and consolidated financial statements prepared on its own from being presented before the general shareholders meeting or equivalent body with qualifications in the auditor's report.

As established in the Regulations of the Board of Directors of the Company, Article 39, paragraph 3, the Board of Directors endeavours to prepare the financial statements in such a way as not to give rise to qualifications by the auditors. However whenever the Board considers it must maintain its criteria, it shall publicly explain the content and scope of the discrepancy.

C.1.10 Is the Board's or management body's Secretary a Director?

Yes No

C.1.11 Indicate, if any, the mechanisms established to preserve the independence of the external auditor, financial analysts, investment banks and rating agencies.

Article 13 of the Regulations of the Board of Directors of the Company provides that the Audit Committee will be in charge of liaising with the external auditors to receive information on any issues that could jeopardise their independence and any other matter related to the performance of the audit, as well as other communications established by the audit legislation and technical auditing standards.

C.2. Committees of the Board or management body

C.2.1 Number the management bodies:

Name of the Body	Number of Members	Functions
Audit Committee	**2**	**Those detailed under provision C.2.3**

C.2.2 Specify all the committees of the Board or management body and their members:

DELEGATE OR EXECUTIVE COMMITEE

NIF or CIF	Name or Company namePosition	

AUDIT COMMITTEE

NIF or CIF	Name or Company name	Position
B-82158379	JOMACA 98, S.L.	MEMBER SECRETARY
31235121V	JOSE CARLOS SOLA BALLESTER	PRESIDENT

C.2.3 Provide a description of the organisational and operational rules and the responsibilities attributed to each of the board committees or board members. Where appropriate, do describe the powers of the CEO. Writing limit to 4,000 characters
AUDIT COMMITTEE (CA) Members: 3 to 5 Directors, the majority of non-executive directors with at least one independent. Office for four years, reelected after 1 year after cessation. President elected among non -executive directors. Al efforts will be made so that all members of the Committee are appointed taking into account their knowledge and experience in accounting and auditing. They will cease when they cease to be directors or when decided by the Governing Council (GC). At least two annual meetings to review the periodic financial information required by securities authorities and the information that the GC has to approve and publish. It shall meet whenever called by its Chairman, who must do so whenever the CdA or himself requests the issuance of a report or the adoption of proposals by the CA and whenever requested by any member of the CA.Among others, the CA shall perform the following functions: -Informing the Shareholders Meeting on matters raised by shareholders regarding its powers -Proposing the CdA, for submission to the Shareholders Meeting, the appointment of external auditors external (conditions, scope mandate, revocation or renewal...) -To supervise the internal audit systems; ensure its independence and effectiveness -Review accounts, monitor compliance with legal requirements and the correct

application of accounting principles, working with external and internal auditors – to know and to supervise the preparation process and the integrity of financial information, reviewing compliance with regulatory requirements and the correct application of accounting principles; know and supervise the adequacy and integrity of internal control systems and review the appointment and replacement of those responsible for them -Review internal control systems and risk management, for identification, management and disclosure them properly -Relating with the external auditors in order to receive information on matters that could jeopardise their independence and any other matters related to the auditing process, as well as other communications envisaged in the legislation and technical auditing standards - monitoring the compliance with the audit contract, ensuring that the opinion on the annual accounts and the main contents of the audit report are drafted clearly and precisely, and also evaluate the results of each audit -Review periodic financial information supplied by the Board to the markets and their supervisory bodies, making sure that the interim accounts are prepared using the same accounting principles as the annual compliance -Examine the compliance of the Internal Code of Conduct Rules, the GC Rules and the government rules, and make proposals for their improvement -Informing the CdA, prior to the adoption of decisions on the following basis: a) the creation or acquisition of interests in special purposes entities or domiciled in tax havens , as well as other transactions or operations of a comparable nature whose complexity might impair the transparency of the group; b) related party transactions. CHIEF EXECUTIVE : The GC may appoint from among its members one or more Managing Directors, and it may delegate to them wholly or partly all powers that are not deemed to be non-transferable under applicable laws and bylaws.

C.2.4 Specify the number of meetings held by the Audit Committee during the year:

Number of meetings	3

C.2.5 In case there is a Committee of Appointments, specify if all of its members are Directors or members of the management bodies.

Yes No

D RELATED-PARTY TRANSACTIONS AND INTRA-GROUP OPERATIONS

D.1 Detail transactions between the company or Its group companies and shareholders, cooperative shareholders, holders of proprietary rights or any other equivalent nature of the entity.

There is a loan operation between the Company and JOMACA 98, S.L.which has not accrued any interest in the current year due to JOMACA's insolvency situation.

Also this year the management has been remunerated. Since Mr. José Maria Castillejo Oriol and JOMACA 98, SL are Directors of the Company and shareholders of the Company, the aggregated remunerations are found under provision C.1.5.. And there was a provision of consulting services regarding both Armialda, SA and Mr. José Maria Castillejo as detailed in the annual statements for 2014.

D.2 Detail the transactions between the Company or Companies of the group and the managers or members of the board of directors or executives of the Company.

As noted in previous sections, there is a loan operation between the Company and JOMACA 98 , S.L. Which has no accrued any interest in the current year due to JOMACA's insolvency situation.

Also this year the members of the board have been remunerated. Those aggregated remunerations are found under section C.1.5. And there was a provision of consulting services regarding both Armialda, SA and Mr. José Maria Castillejo as detailed in the annual statements for 2014.

D.3 Detail the intra-group operations.

The operations in force within the Zinkia Group are the following:

Distribution Agreement between Cake Entertainment,Ltd. and ZINKIA ENTERTAINMENT, S.A. Regarding the distribution of television audiovisual contents of the former in some territories in exchange of a commission or percentage over the distributed content.

Reciprocal credit line agreement between ZINKIA ENTERTAINMENT, S.A. and SONOCREW, S.L.U. Amounting to FOUR HUNDRED THOUSAND EUROS A YEAR (400,000 €/year).

D.4 Describe the mechanisms established to detect, determine and resolve possible conflicts of interest between the company or its group and its directors or board members or directors.

There has not been any conflict of interest between the directors, according to the provisions of Consolidated Companies Act.

In this regard, the Company has established the following mechanisms established in Article 29 of the Regulations of the Board of Directors.

1. Directors must communicate the existence of any conflict, direct or indirect, that may arise with the interests of the Company. The Director in question shall refrain from participating in agreements or decisions relating to the transaction to which the conflict is referred.

2. Directors must also disclose any direct or indirect participation that both them as well as the related persons referred to in Article 231 of the Companies Act, have in the capital of a company with the same, similar or complementary activity that constitutes the corporate purpose, and also communicate the positions or functions they exercise.

3. The situations of conflict of interest provided for in the preceding paragraphs shall be reported in the memoir.

E INTERNAL CONTROL SYSTEMS AND RISK MANAGEMENT

E.1 Explain the scope of the Risk Management System of the Company.

The Company counts on systems of risk internal control regarding the risks to which it is exposed, these systems based on the identification and evaluation of the factors that may affect in some way the meeting of the Company's objectives.

The activities of the Company are exposed to various financial risks: market risk, credit risk and liquidity risk. The program for overall risk management of the Company focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on its financial performance. The Company uses derivatives to hedge certain risks.

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

The management of these risk factors is controlled by the Finance Department of the Company, who identifies, evaluates and hedges financial risks in accordance with policies approved by the Board of Directors.

The Board provides for guidelines for managing both the overall risk and the specific areas such as exchange rate risk, interest rate risk, liquidity risk, use of derivative and non- derivative instruments and investment excess liquidity.

Likewise, the Audit Committee regularly reviews the internal control and risk management systems so that the main risks are identified,managed and properly disclosed.

E.3 Point out the main risks that might affect meeting the business goals.

Writing limited to 4,000 characters
Market risk: 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.The Company currently has no hedge mechanism against fluctuations in currency exchange rates. Therefore, Zinkia is exposed to fluctuations in exchange rates derived from the development of its activities in various countries outside the euro environment in which it operates, as well as from the potential changes that may occur in the various currencies in which the Company maintains its commercial debt. If the Company's turnover in other currencies grows, the Company's exposure to exchange rate fluctuations shall increase. 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. 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'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 scenes, 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. Scenes are only simulated for liabilities

representing the most significant interest-bearing positions.

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

Liquidity Risk: Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, keeping funds available through sufficient committed credit facilities and having the ability to close out market positions. Given the dynamism of the underlying business, the Financial department aims at keeping the financing flexible by means of keeping the credit lines compromised available.

E.4 Identify if the Company counts on any risk tolerance level.

In the performance of activity and the preparation of budgets and business plans the Company counts, with the risks identified, and attempts to manage the assets of the company with the necessary flexibility by using very conservative criteria, so that, as to potential existing risks, the Company will not be affected. Therefore, there is a certain level of tolerance for risk, although, depending on the risks, the necessary mechanisms already planned to minimise any damage should be implemented.

E.5 Specify the risks that materialised this year.

Yes.

During 2014 credit risks and liquidity have materialised

Given the difficulty of access to financial markets and their impact on the liquidity of the company, together with the tensions that were promptly communicated to the Market as Relevant Facts and the maturities the Company had to face in the last quarter of 2013 and the first quarter of 2014, the company, in 2012 and 2013, has managed the control and reduction of the expenditure and attempted to access to alternative funding different than the financial institutions, for example by the Issue of Simple Debentures, broadcast, approved by the CNMV, which finally had no placement. Given the results, the Company communicated the Mercantile Courts of Madrid on October 31st 2013 the continuation of the negotiations with its main creditors, as provided in Art. 5Bis of the Insolvency Act.

In any case, the economic and financial position of the Company after the failure to reach an agreement with one of its major creditors led the Board to decide to seek voluntary arrangement with creditors procedure, so on 26 February 2014 the Company filed for voluntary declaration of arrangement with the creditors before the Commercial Courts of Madrid. The Commercial Court No. 8 in Madrid issued a decision in April 7, 2014 in which the ZINKIA ENTERTAINMENT S.A. is declared to have entered the procedure of the voluntary arrangement with the creditors. Also, ATTEST INTEGRA, S.L.P. It was appointed as insolvency administrator by the National Securities Market Commission and the Court Mercantile nº 8 of Madrid. Once the Company was declared to be under voluntary arrangement with the creditors, the Company negotiated and presented to the court an Advanced Proposal of Arrangement, which a majority of creditors have adhered as requested by the Insolvency Act. At present, the Company is awaiting the

Court to approve the said Proposal and declare the departure of the Company from the insolvent situation.

In general, and for all risks that occurred this year as described in this paragraph, the Board of Directors, according to its powers, has monitored and controlled such risks, by implementing and performing the systems of internal control and information. As a tool to strengthen this end, the Company has counted on the functions of supervision and review conducted by the Audit Committee, as well as on the management led by the Directors of the different areas affected by the materialisation of these risks.

E.6 Explain the plans of reaction and monitoring of the main risks of for the Company.

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

As set out in Article 5.1.g.vii Regulations of the Board, the Board of Directors approves the policy of control and risk management, and the periodic monitoring of internal information and control systems.

Likewise, the Audit Committee regularly reviews internal control and risk management systems , so main risks are identified, managed and given properly disclosed , as provided in Article 13.2.c of the Regulations of the Board.

F SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT REGARDING THE PROCESSING OF FINANCIAL INFORMATION (SICFI)

Describe the mechanisms that are part of the internal control and risk management regarding the processing of financial information in your Company (SCIIF).

F.1 The Corporation Control Environment

Report by pointing put the main features of at least:

F.1.1. Bodies and functions responsible for: (i) creating and maintaining a suitable and effective SICFI; (ii) implementing it; and (iii) monitoring it.

The Board of Directors is the highest governance body responsible for creating and maintaining a suitable and efficient SICFI, both directly and through their Audit Committee.

According to provision 13.2 of the Board of Administration Regulations, and regarding the systems of information and internal control, the Audit Committee, shall be responsible, among other items, for:

- Monitoring the effectiveness of the internal control of the Company, its internal auditing and, if need be, the risk managing system. Discussing with the statutory auditors or audit societies the significant weaknesses of the internal control system detected during the auditing.

- Monitoring the process of elaboration and presentation of the regulated financial information regarding the Company and, if need be, the Group.
- Establishing due contact with the statutory auditors or audit societies in order to be reported on all those questions that might jeopardise their independence and that shall be examined by the Committee. The Committee shall also be reported on any other question related to the accounting audit, and on any other communication necessary under the regulation of accounting audit or the rules of auditing. In any case, the Audit Committee shall receive annually from the statutory auditors or audit societies written confirmation of their independence vis-à-vis the corporation or corporations bound to this one directly or indirectly, together with the information on the additional services of any kind provided to those corporations by the aforementioned auditors and societies, and by those persons or entities bound to them according to the provisions of the Accounts Audit Act (as approved by Royal Decree 1/2011 July 1st.)
- Annually issuing, before the statutory auditor issues his own report, a report whereby the Committee shall express their opinion on the independence of the statutory auditors or audit societies. In any case such report shall take a stand on the additional services that are provided as referred to in the above paragraph.
- Review compliance of the Internal Code of Conduct, of the present Regulations and, in general, of the rules of governance of the company, while also providing the necessary proposals for their improvement.

In order to monitor the SICFI, the Committee shall be entitled to review the process of elaboration and presentation of the regulated financial information regarding the company and/or the Group, a function bestowed on the Audit Direction, the main aim of which is ensuring the good performance of the internal systems of information and control, as well as evaluating the internal control implemented by the external auditor. Thus, the Audit Committee shall:

- Be responsible for the design, implementation and performance of the SICFI. This function shall be executed via the Financial Department, which shall be responsible for the elaboration of the financial statements and for implementing and maintaining the due sets of primary control aimed to rule the transactions and all other operations that process the information that is to become the source of those financial statements. Audit Committee shall also check the adjustment and integrity of the systems of internal control and review the appointment and replacement of those persons responsible for them. The process of elaboration of the accounting principles and policies will also be checked.
- Be aware of and monitor both the integrity and the process of elaboration and presentation of the financial information regarding the company and, where applicable, the Group, by reviewing compliance of the legal requirements, the correct delimitation of the consolidation perimeter and the correct implementation of the accounting criteria.
- Monitor periodically the systems of internal control and risk management, in order to duly identify, manage and raise awareness on the main risks, while discussing with the statutory auditors the significant weaknesses of the system of internal control detected during the auditing.
- Ensure the independence, and monitor the efficiency, of those functions regarding internal control and their legal compliance.

F.1.2. If any, and specially regarding the process of preparation of the financial information, the following items:

a) Departments and/or mechanisms in charge of: (i) the design and review of the organisation structure; (ii) the clear definition of the guidelines on responsibility and authority and the adequate distribution of tasks and functions; (iii) the implementation of enough number of procedures to communicate properly all of the above within the corporation, and in particular the process of elaboration of financial information.

The design and review of the organisation structure as well and the definition of the guidelines on responsibility and authority fall within the scope of the functions of the Board of Directors.

The Managing Director shall implement such a structure while also taking care of distributing tasks and functions adequately.

The Managing Director shall also ensure the adequate segregation of functions and the perfect definition of the guidelines on authority and responsibility.

The communication of the organisational structure to the whole corporation shall take place periodically, both via electronic media and periodical meetings with the whole of the corporation staff.

b) Code of conduct, approval body, communication and instruction extent, principles and values included (pointing any specific references to the registration of operation and the process of financial information), body responsible for analysing in compliance and proposing penalties and corrective measures.

The company has an Internal Code of Conduct in connection with the Securities Market approved by the Board of Directors, on 9th June 2009, applicable to Directors, Managers, external consultants and all those providing any services to the Company in connection to markets, and particularly to the financial department.

The said Code provides with the conduct criteria to be followed by the above addressee in the markets operation, including their communication and registration, with the aim of contributing to the transparency of such operations and of protecting investors. The Code refers as to how to act in case of conflict of interests, and provides the rules of conduct related to inside or relevant information, etc. The Code is based on the principles of impartiality, good faith, the protection of the general interest before the company's own, and care and diligence in the use of information, and regarding the activities performed in the markets. These set of rules of conduct provide the guidelines employees should adhere and thus prevent the risk of unethical conduct.

The Board shall be responsible for ensuring compliance of the Code, analysing its breaches and proposing penalties and corrective measures, except whenever members of the Governance Bodies are involved, in this case the Board of Directors shall be the competent authority.

c) Channel of complaints to report to the Audit Committee any financial and accounting irregularity, as well as any possible breach of the code of conduct or any irregular activity in the organisation, reporting if need be about their confidential character.

The corporation is considering the implementation of a channel of complaints that shall afford reporting to the Audit Committee any detection of financial and accounting irregularities while granting total confidentiality on that report.

d) Regular training and updating of knowledge programmes, including at least accounting rules, auditing, internal control and risk management, aimed at the staff involved in the preparation and review of the financial information and the SICFI evaluation.

Employees belonging to the financial area and responsible for the elaboration and review of financial information must have the adequate, updated knowledge for them to qualify and be capable of performing such entrusted responsibilities.

To that effect, the said staff shall be recruited by paying conscientious attention to their training in the fields of accounting, auditing, internal control or risk management, notwithstanding, if need be, the additional training that might be considered adequate in such fields at any time.

The Financial Department, in co-ordination with the Human Resources Department, shall decide what plans of internal or external training are adequate to ensure the ongoing training and competence of all members of that Area.

F.2 Risk assessment in financial information.

Report at least on:

F.2.1. Main features of the risk identification process, including risks of error and fraud.

A In the case of a process already existing and documented.

The risk identification process in the financial information is implemented periodically by the Financial Department without actually documenting such process.

The corporation is considering the implementation of a documented process that shall afford reporting to the Audit Committee any detection of risks, including error and fraud, while establishing the different options of action to be taken accordingly and the corresponding processes of prevention, identification and regularisation.

This process is the fundamental pillar of any adequate system of internal control, and therefore it shall involve the cooperation of the department in charge of processing the financial information, as well as the Risk Control of the Company, the Financial Department, as well as the Board, as supervisors charged with the review, and the Board of Directors as the highest body charged with the internal control of the financial information.

B In the case of a process meeting the whole of the goals of the financial information, that might be upgraded and how often it is to be upgraded.

The extent of the risk identification process in financial information covers from the occurrence and valuation to the presentation and breakdown of that information.

The Financial Department identifies the possibilities of errors in each of the likely sources of risk, implementing different measures of identification according to their origin.

Automatic means of identification and alert are used during the phases of occurrence, record and valuation, through measures of logical security implemented in the systems of financial information, and through the automatic matching of balances on the information recorded.

Technological systems assure the correct process of the activities related to a large volume of information, transactions and complex calculation.

The breakdown of financial information and its presentation are also assured by the procedures supported by the technical applications for processing financial statements, regarding both their logical security and the accuracy of their calculation.

The risk identification process in financial information shall be updated via the Procedure the corporation is considering documenting vis-à-vis the present process of risk identification and control, through the security policies of the financial information and the manual of the corresponding accounting policies to be approved by the Board of Directors, and to be updated later on according to whatever frequency is finally established.

C Existence of the process of identification of the consolidation scope., taking into consideration, among other issues, that complex corporate structures might exist, together with instrumental os special purposes entities.

The scope of consolidation is determined according to the criteria specified in the international standards for financial reporting and reviewed before a policy change by the Financial Management Group.

D In the case of the process taking into account the effects of other typologies of risk to the extent that they affect the financial statements.

The corporation shall take into account not only the control on the risks identified in section E3 of the Annual Governance Report, which includes the present document, but also the following risks that are part of the risk identification process:

- **Accounting risks:**
  These are the risks affecting the reliability of the financial information and the compliance of the applicable accounting rules.
- **Operational risks:**
  The possibility of incurring into losses as a result of existing inadequate technical and human procedures, or due to their failure, or to the lack of resources, training or the necessary tools for decision making.
- **Technological risks:**
  Risks produced by system failures, or by errors in the processes executed upon them. Besides the software and system errors there are other indirect technological errors and that may be harmful to a large extent, such as failure in telecommunications, external attacks or malaware.
- **Compliance risks:**
  Arising from the possible implementation of internal practices that might cause a negative perception in our groups of interest (clients, suppliers, Public Administration or local surroundings).
- **Reputational risks:**
  Produced as a result of external factors, they might result in modifications in the internal control of the financial information.

E Corporate Governance Body monitoring the process.

The Financial Area, the Management and the Audit Committee, and naturally, the Board of Directors, as ultimate responsible body for the financial information of the Company, are those bodies responsible for monitoring the risk identification process in the financial information of the Company.

The Financial Department shall:

- monitor the recording, valuation, breakdown and presentation of the financial information and the correct estimation of the forecasts,
- identify and check the correct recording of the financial information regarding the risks derived from lending, market and treasury activities, as well as any other risk that might take place due to operational risks, and
- monitor the correct implementation of rules together with the Legal Department of the company, stopping mistakes in their implementation, or lack of knowledge of those rules, from resulting in errors in the financial information.

The Management Committee shall validate the correct presentation and the breakdown of the financial information, as well as the estimates and projections.

The Audit Committee shall monitor and review the whole risk identification process in the financial information.

The Board of Directors, as the corporate highest body of governance, shall approve the policies of security of financial information as well as the manuals of accounting policies.

F.3 Control activities

Report by pointing out the main feature if your Company counts at least on:

F.3.1. Reviewing and authorisation procedure of financial information and description of the SICFI, both to be published in the securities markets and both designating the responsible persons for them as well as the documentation describing the activities and control flows (including those regarding the risk of fraud) of the different types of transactions that might affect the financial statements materially, including the procedure of accounting closure and the specific review of relevant criteria, estimates, valuations and projections.

Article 5 of the Board Regulations provides the formulation of the annual accounts and the management report, both individual and consolidated, as a competence of the Board of Directors, as the company’s ultimate decision making body.

The Management and the Board of Directors shall review the estimates on which the most relevant items from the financial statements and projections used by the corporation are grounded.

This review is considered a control activity, prior to the issuing of the financial report, and it is relevant to the extent that it ensures that the criteria and projections used are in line with those endorsed by those ultimate persons responsible for the corporation management, who have actually proceeded to review such criteria and projections.

The Audit Committee is responsible for the review of the financial information.

In order to ensure the reliability of the information all different areas will count on individual control mechanisms on those transactions regarding the financial report.

All the financial information will be captured through the transactions in the computer applications, be they department or branch applications, so as to ensure the reliability, valuation and recording of the information.

As for the control procedures for the transactions materially affecting the financial statements, they are aimed at ensuring the proper recording, valuation, presentation and breakdown of those transactions in the financial report.

There are two types of control procedures:

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

- The Financial Department shall be responsible for reviewing all control procedures, and shall pay special heed to the proper segregation of functions.

F.3.2. Policies and procedures of internal control regarding the information systems (amongst others, on access security, exchange controls and operations, operational continuity and segregation of functions) hosting the relevant corporate processes regarding the processing and issuing of the financial report.

The corporation has established certain internal control systems and expects being capable of documenting them via the corresponding documents on Security and Control Policy on financial report, which shall pay heed to the set of guidelines, obligations, security measures and technological aspects related to financial information, levels of authorisation in accounting applications, and specific controls to detect any possible incident.

The general principles of information security are focused in maintaining and granting the security of the information processed so that the service provided actually grants optimal levels of nondisclosure, integrity and continuity, as well as business continuity, minimisation of tort caused by disasters, and a fast response to any incident, and so that it keeps the level of performance of the critical activities and processes.

The Financial Department shall be responsible for the monitoring and upgrading of this policy.

The Human Resources Department and the Technology Department shall be responsible for the implementation and follow-up of this policy, and the Board of Directors shall be responsible for its approval.

F.3.3.Policies and procedures of Internal control aimed at monitoring the management of those activities outsourced to third parties, as well as those aspects of evaluation, calculation or valuation entrusted to independent experts that might affect financial statements materially.

The corporation has no outsourcing policy for those services related to financial information.

In case of outsourcing those services related to financial information, the economic criteria shall not be the only ones considered, the experience, quality and prestige of the services providers shall be duly matched in the decision making.

Since the external services outsourced are usually audits and consultancy (including fiscal consultancy), such services shall be appointed by the Board of Directors. And due to the cyclical, reiterative features of those services the Financial Director shall authorise the contracting of external services related to financial information.

F.4 Information and Communication

Report by pointing out the main feature if your Company counts at least on:

F.4.1. Specific functions aimed at defining and updating the accounting policies and solving questions and conflicts arising from their interpretation, while keeping a fluid communication with the persons responsible for the operations in the organisation, as well as keeping an updated manual on accounting policies to be handed to all the units operating in the corporation.

The Financial Department shall be responsible for the definition and updating of accounting policies, and for their communication to those people in the organisation actually involved in the processing of financial information. The Board of Directors shall be responsible for approving these policies.

These policies shall be updated in order to be adapted to any legal change whatsoever. They shall be reviewed at least once a year.

The Financial Department shall be responsible for solving any questions or conflicts arising from the interpretation of accounting policies.

F.4.2. Mechanisms to capture and process financial information through homogenous formats implemented and used by all the corporate and company units, hosting the main financial statements and notes, as well as all the information detailed on the SICFI.

The General Accounting application shall centralise all the accounting functions, including the whole accounting of the corporation, and shall be controlled and managed only by the Financial Department.

This system has the following features:

- Multi currency
- Access granted to information according to the different authorisation levels (user transaction and operating centre-account).
- Capture and validation of entries allowed in real time.
- Different types of account are identified in the system.
- It affords interfaces in the operational applications supplying any operation reflecting the accounting events that have taken place.
- Users duly authorised might proceed to maintain through the screen the fixed parameters of the system.
- Information can be presented in different levels of aggregation.

F.5 System performance monitoring.

Report by pointing out the main features of at least:

F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and whether the entity has an internal audit function whose powers include supporting the committee in its task of supervising the internal control system, including ICFR. It will also inform on the scope of evaluation of ICFR in the year and on the procedure which the person responsible for execution of the assessment reports shall communicate the results, whether the entity has a plan detailing the possible corrective measures, and whether it has considered its impact on the financial information.

According to the Regulations of the Board of Directors, the Audit Committee shall be responsible, vis-à-vis the systems of information and internal control, for checking the efficiency, adequacy and integrity of the systems of internal control, for being aware of and monitoring the integrity and the process of elaboration and presentation of the financial report, for periodically reviewing the systems of internal control and for ensuring the independence and efficiency of the internal audit functions.

The Financial Director is organisationally placed under the General Manager and shall functionally report to the Audit Committee, and shall support auditing while also managing the day-to-day relation and review of the system of internal control.

F.5.2. The discussion procedure through which the statutory auditor (according to what is determined by the NTA), internal audits and any other experts shall communicate to the Senior Management and to the Audit Committee any meaningful weakness identified in the internal control during the process of reviewing the annual accounts or in any other process for which they are responsible. Additionally the discussion procedure shall report whenever there is a plan of action aimed at correcting or mitigating the weakness detected.

The corporate function of internal control implemented by the Financial Department, within the scope of works included in its Annual Plan of activity, shall communicate both to the Direction (via the Board of Directors) and, subsequently, to the Audit Committee (periodically, during its meetings) the results of the evaluation of the system of internal control of the financial information.

On the other hand, this procedure shall also communicate any meaningful weaknesses in the internal control that might be identified during the year in some other process.

In these cases, plans of action shall be elaborated with the aim of mitigating such deficiencies detected. Plans of action shall be duly followed-up.

Regarding the statutory auditor, according to the procedure established the auditor shall attend the Audit Committee meetings with the aim of reporting on the result of the work and, when necessary, of making public those details on the internal control weaknesses and on the plans of action implemented in order to remedy such weaknesses.

F.6 Other relevant information

To the Company's thinking there is no other relevant information that has not been communicated to the market or included in this document.

F.7 Report of the external auditor.

Report on:

F.7.1. Whether the information of ICFR communicated to the Market has been subject to the external auditor, in that case the Company should annex the due Report. Otherwise, the Company should communicate its reasoning.

The corporation has not submitted its system of internal control over the process of financial report to any external expert since such control takes place, for the time being, without any specific procedure documented and approved. There is not, to this date, any homogenous procedure. Any such procedure shall be implemented as soon as the final procedures are documented and approved. However, the Group statutory auditors do review all procedures of internal control annually to the full extent imposed by the auditing rules applicable in Spain.

Notwithstanding the above, this document is sent to the external auditor as part of the Annual Report on Corporate Governance included in the management report, with the aim of including it in the auditing of the Annual Accounts corresponding to the year 2013.

G OTHER INFORMATION OF INTERES.

If there is a relevant aspect of corporate governance in the company or group companies that has not been collected in the other sections of this report, but is deemed necessary to be hereby included to collect more comprehensive and reasoned information on the structure and governance practices in the company or its group, describe briefly.

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

Specifically , it shall be stated whether the entity is subject to any legislation r than the Spanish one regarding corporate governance and, where applicable, do include the information the Company is required to provide and that is different from that required in this report.

The entity may also indicate whether it has voluntarily adhered other ethical principles or codes of good practice, be international, sectoral or from other field. Where appropriate, the entity shall identify the specific code and the date of accession.

To supplement the information provided in point C.1.2. and C.2.1. and C.2.2, note that the information in this section is current as at December 31, 2014, which we supplement with the following information:

As informed in this section of the Annual Governance Report in 2013, at 11th february 2014 Alberto Delgado Gavela and Angel- Martin Ortiz Abogados, SL ceased as members of the Board of Directors as approved by a majority vote achieved in Extraordinary General Meeting. Their seats were vacant in the Board of Directors until the Annual General Meeting of Shareholders proceeded to appoint new directors.

At July 16, 2014 , the Board of Directors of the Company approved the appointment of JOMACA 98, SL as Secretary of the Audit Committee, and José Carlos Solá Ballester was appointed Chairman. The Company is taking the necessary steps to fill the vacancy on the Audit Committee.

All these changes were notified to the CNMV and MAB by the Relevant Facts on the day the Company became aware of them or they were decided by Company.

Likewise, the information provided in this report as a point C.1.7., which estates that there is no maximum term limiting the office of the Board of Directors. Should be stressed. As set out in Article 17 of the Company's Statutes and Article 20 of the Regulations of the Board of Directors, the Directors are appointed for a period of five years but may be reappointed. In turn, Article 21.1 of the Regulations of the Board of Directors of the Company provides that the independent directors shall cease when they have held that position for a continuous period of 12 years from the time the Company's shares are admitted to trading on the Alternative Investment Market. The drafting of the corporate documents will have to adapt in the next General Shareholders Meeting to the legislative novelties incorporated in Law 31/2014, of December 3, whereby the Corporations Act is amended to improve corporate governance.
Finally, the information provided in section C.1.6 is also underlined because given that there are not any senior management contracts in the Company in response to the interpretation of the concept by the Commission Nacional del Mercado de Valores (CNMV) which is not reflected in any labour law, for the sake of a greater transparency, and just like other years, this document has included the information of the senior management of the Company who depended some time in 2014 from the Board of Directors or the CEO.

At last it is hereby communicated that the Company has not adhered to other ethical principles or codes of good practice, international, sectoral or of other fields

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This annual corporate governance report was approved by the board or governing body of the entity, in its meeting held on 30h MARCH 2015. Point out those directors or board members who voted against or abstained in connection with the adoption of this report.

No Director voted against or abstained in the approval of the present 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 2014, formulated by the Board of Directors at the meeting held on March 30th 2015 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 30th, 2015

D. José María Castillejo Oriol

D. José Carlos Solá Ballester

JOMACA 98, SL representada por
Dña. María J. Alonso Fernández