

**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 31<sup>st</sup> DECEMBER 2013

C.I.F. A82659061

Company name: ZINKIA ENTERTAINMENT S.A.

Company address: CALLE INFANTAS 27-28004 MADRID

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

**A.- OWNERSHIP STRUCTURE**

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

<b>NIF or CIF</b>	<b>Name or company name of the shareholder or holding</b>	<b>% over capital share</b>
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:

<b>NIF or CIF</b>	<b>Names or company names related</b>	<b>Type of relation</b>	<b>Brief description</b>

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:

<b>NIF or CIF</b>	<b>Names or company names related</b>	<b>Type of relation</b>	<b>Brief description</b>
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**

<b>Description of restrictions</b>
None

**B.- SHAREHOLDERS MEETING OR EQUIVALENT BODY**

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

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

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

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

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

On second call, a twenty-five percent of the capital will be sufficient, although when shareholders represent less than fifty percent of the share capital with voting rights, the

agreements referred to in this paragraph may be taken only validly by the affirmative vote of two-thirds of the capital share present or represented at the Shareholders Meeting

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

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

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

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

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

#### **Company's statutes. 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 statutes [...]

#### **Company's statutes. 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.  
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A General Shareholders Meeting took place on 27<sup>th</sup> June 2013, and the following resolutions were submitted to the approval of the Shareholders, and were actually approved by the following favour votes:

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

Approved by 100% votes.

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

*Approved by 100% votes.*

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

*Approved by 96,85 % votes.*

**Fourth.-** Ratification and appointment of directors.

*Approved by 96,85 % votes.*

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

*Approved by 100% votes.*

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

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

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

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

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

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

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

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

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

*Approved by 100% votes.*

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

*Approved by 100% votes.*

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

*Approved by 100% votes.*

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

*Approved by 99,37% votes.*

Fifth.- Powers delegation.

*Approved by 100% votes.*

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

*Approved by 100% votes.*

## **C ENTITY'S MANAGEMENT STRUCTURE**

C.1 Board or managing body

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

<b>Maximum number of board directors/ members managing body</b>	<b>10</b>
<b>Minimum number of board directors/ members managing body</b>	<b>3</b>

**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**

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

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

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

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

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

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

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

Remuneration Concept	Thousands of euros	
	Individual	Group

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

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

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

Total remuneration of high managers (thousands euros)	193
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**C.1.7 Specify if the company's statutes or the rules of the board establish a time limit to the board of directors or the members of the managing body:**

YES      NO

Maximum number year mandates	0
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**C.1.8 Specify if the Annual Financial Statements, consolidated and individual, submitted to the approval of the board or managing body, are previously certified:**

YES      No

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

NIF	Name	Position

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

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

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

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

YES **No**

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

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

## **C.2. Commissions of the board or managing body**

**C.2.1 List the managing bodies:**

<b>Body name</b>	<b>Number of members</b>	<b>Functions</b>
<b>Audit Committee</b>	<b>1</b>	<b>As detailed in C.2.3</b>

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

### **EXECUTIVE OR DELEGATE COMMISSION**

<b>NIF or CIF</b>	<b>Name or company name</b>	<b>Position</b>

### **AUDIT COMMITTEE**

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

### **COMMISSION FOR APPOINTMENTS AND REMUNERATION**



NIF or CIF	Name or company name	Position

**COMMISSION FOR STRATEGY AND INVESTMENTS**

NIF or CIF	Name or company name	Position

**COMMISSION \_\_\_\_\_**

NIF or CIF	Name or company name	Position

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

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

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

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

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

Number of Meetings	2
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**C.2.5 If there is a commission for appointments, specify if all its members are board directors or members of the external body of administration.**

YES No

**D RELATED AND INTRA GROUP OPERATIONS**

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

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

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

NIF or CIF	Shareholder Name or Company Name	Type of relation	Brief description	Amount
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B82158379	JOMACA S.L.	98,	CONTRACTUAL	ACCRUED INTERESTS ON LOAN GRANTED BY ZINKIA ENTERTAINMENT S.A.	31
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### **D.3 List the intra-group operations.**

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

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

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

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

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

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

1. A Director must disclose the existence of any such conflict, direct or indirect, as it may have with the Company's interest. The affected Director must refrain from participating in the resolutions or decisions regarding the transaction to which the conflict relates.
2. Directors also must disclose such direct or indirect interests as either they or the related persons referred to in article 231 of the Capital Companies Act may have in the capital of a company with a business that is the same as, or comparable or complementary to the business constituting the corporate purpose, and also will disclose the offices or functions they fill or perform therein.
3. The conflicts of interest contemplated in the preceding subsections will be reported in the notes to the financial statements.

## **E CONTROL AND RIKS SYSTEMS**

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

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

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

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

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

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

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

Draft limit 4.000 characters (3.976)

#### **AUDIT VERSION ACCORDING TO FINANCIAL STATEMENTS**

(3.324)

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

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

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

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

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

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

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

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

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

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

YES

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

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

In broad terms, and regarding the ensemble of risks faced during the year as hereby described, the Board of Directors, acting according to its powers, has monitored and control such risks, implementing the due internal control and information systems. As a means to enhance this, the Company has counted on the monitoring and review functions of the Audit Committee, and on the management activities implemented by the head of the different affected areas.**E.6 Explain the response and monitoring regarding the main risks for the entity.**

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

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

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

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

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

## **F.1 Entity's control environment**

**Report on the main features of at least:**

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

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

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

- Monitoring the effectiveness of the internal control of the Company, the internal audit, if any, and the risk management systems, and discussing significant weaknesses in the internal control system detected in the course of the audit with the auditors or audit firms.
- Supervising the process of preparation and presentation of regulated financial information related to the Company and, if applicable, the group.
- Establishing the appropriate relationships with the auditors or audit firms to receive information regarding such questions as may compromise their independence, for review by the Committee, and any others related to the process of auditing accounts, and such other communications as may be contemplated in the legislation regarding auditing of accounts and audit standards. In any event, annually it must receive written confirmation from the auditors or audit firms of their independence as regards the entity or directly or indirectly related entities, and information on additional services of any kind provided to these entities by the aforesaid auditors or firms, or by the persons or entities related thereto in accordance with the provisions of Audit Act 19/1988 of 12 July 1988.
- Annually, prior to the issue of the audit report, issuing a report stating an opinion regarding the independence of the auditors or audit firms. This report must address the provision of any additional services referred to in the preceding section.
- Examining compliance with the Internal Code of Conduct, these Regulations and, in general, the company's governance rules, and making the proposals necessary for improvement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **F.2 Risk evaluation in the process of financial data.**

**Report at least on:**

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

**A • The actual procedure and its recording.**

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

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

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

**B • Whether the procedure fully covers the aims of financial information (existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations), whether and how often it is updated.**



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

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

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

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

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

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

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

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

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

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

- **Accounting risks:** These are risks affecting the reliability of financial reporting and the compliance with the applicable accounting standards
- **Operational risks:** They represent the chance of suffering losses due to inadequate technical and human processes, or due to their failure, and also due to the lack of resources, training, or necessary tools in the decision-making.
- **Technological risks:** They are due to failure in the systems or to errors in the processes relying on them. Apart from the errors in the software and systems, there are other indirect technological risks that might have serious consequences such as telecommunication failures, external attacks or malware.

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

## **E •Managing body monitoring the process.**

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

The Financial Head:

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

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

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

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

## **F.3 Control activities**

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

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

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

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

The Audit Committee is responsible for reviewing the financial information.

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

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

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

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

There are two type of controls:

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

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

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

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

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

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

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

**F.3.3. Policies and internal control procedures for monitoring outsourced activities, as well as the appraisal, calculation or valuation commissioned from independent experts,**

**which may materially affect the financial statements.**

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

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

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

#### **F.4 Information and communication**

**Report, by pointing at the main features, if there is any such:**

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

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

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

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

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

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

The system has the following features:

- multi-currency
- grants access to information depending on the authorised levels (user-transaction and operating centre-account).
- Affords the recording and validation of statements in real time.
- Different type of accounts are identified within the system.
- Affords interfaces with operating application that supply movements reflecting the accounting event produced.

- Authorised users can maintain the fixed parameters of the system through the screen.
- Information show different levels of aggregation.

## **F.5. Monitoring of the operation system**

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

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

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

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

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

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

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

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

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

## **F.6 Other relevant data**

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

## **F.7 Report of the external audit**

**Report on:**

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

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

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

**G. OTHER RELEVANT DATA**

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

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

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

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

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

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

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

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

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

After year-end, at 11<sup>th</sup> February 2014, the Extraordinary General Shareholders Meeting approves by majority the resignations of Mr.. Alberto Delgado Gavela and Mr. Angel-Martin Ortiz

Abogados, S.L. as members of the Board of Administration, therefore two vacancies were created in the Board of Directors.

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

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

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

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

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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 31<sup>st</sup> MARCH 2014. Indicate directors or board members who voted against or abstained on connection with the adoption of this report.