

Audit Report on Annual accounts
issued by an Independent Auditor

PALMA PICTURES THE MEDITERRANEAN
PRODUCTION CENTER, S.L.
Annual accounts and Management Report
for the year ended December 31, 2020

AUDIT REPORT ON ANNUAL ACCOUNTS ISSUED BY AN INDEPENDENT AUDITOR

Translation of a report and annual accounts originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 18)

To the shareholders of PALMA PICTURES THE MEDITERRANEAN PRODUCTION CENTER, S.L.:

Opinion

We have audited the annual accounts of PALMA PICTURES THE MEDITERRANEAN PRODUCTION CENTER, S.L. (the Company), which comprise the balance sheet as at December 31, 2020, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2020 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying annual accounts) and, specifically, the accounting principles and criteria contained therein.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those regulations are further described in the *Auditor's responsibilities for the audit of the annual accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the annual accounts in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Most relevant audit issues

Most relevant audit issues are those matters that, in our professional judgment, were the most significant assessed risks of material misstatements in our audit of the annual accounts of the current period. These risks were addressed in the context of our audit of the annual accounts as a whole and in forming our audit opinion thereon, and we do not provide a separate opinion on these risks.

Revenue recognition at year-end

Description	Income is recognised once the risks and benefits related to the services rendered have been transferred to the clients and the amount, together with the related costs incurred can be reliably assessed. Given their significant effect on the income statement and considering that the generally accepted Audit Standards presume that revenue recognition is a potential risk of material misstatement, we have considered this matter to be one of the most relevant aspects of our audit.
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Our response	Our audit procedures have mainly consisted in:
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- ▶ the understanding of the Company's revenue recognition process.
- ▶ the performance of substantive analytical procedures consisting of the review of the income evolution, comparing the income with that recognised in the prior year.
- ▶ the performance of cut-off substantive procedures of operations for a sample of income transactions at closing in order to conclude whether they were accounted for based on the actual flow of services rendered.
- ▶ the performance of analytical procedures on the review of journal entries related to revenue.
- ▶ the review of the balances pending collection through client confirmations and/or alternative procedures based on the available supporting documentation.

Emphasis of matter

We draw attention to the issue mentioned in Note 2.3 of the accompanying Notes to the accounts, regarding the effect of the global health emergency caused by the coronavirus (COVID-19) and where it is noted that the potential consequences on the Company's activity in the forthcoming months are unknown and will depend, to a large extent, on the pandemic's evolution and spread. Moreover, as mentioned in said Note and in Note 2.4 of the accompanying Notes to the accounts, the Company's directors are taking the appropriate measures to deal with the situation and to minimise its impact, and consider that the Company has enough financial capacity in order to obtain the cash flows that may be necessary to avoid jeopardising the application of the going concern principle. Our opinion has not been modified as a result of this matter.

Other information: management report

Other information refers exclusively to the 2020 management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. In conformity with prevailing audit regulations in Spain, our responsibility in terms of the management report is to assess and report on the consistency of the management report with the annual accounts based on the knowledge of the entity obtained during the audit, and to assess and report on whether the content and presentation of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, the information contained in the management report is consistent with that provided in the 2020 annual accounts and their content and presentation are in conformity with applicable regulations.

Directors' responsibilities for the annual accounts

The directors are responsible for the preparation of the accompanying annual accounts so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying annual accounts, and for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- ▶ Obtain an understanding of internal control relevant to the audit 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.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the significant risks communicated with the Company's directors, we determine those that were of most significance in the audit of the annual accounts of the current period and are therefore the most significant assessed risks.

We describe those risks in our auditor's report unless law or regulation precludes public disclosure about the matter.

ERNST & YOUNG, S.L.
Original signed by
Juan Manuel Martín de Vidales Bennásar

April 16, 2021

PALMA PICTURES
THE MEDITERRANEAN PRODUCTION CENTER, S.L.

Annual Accounts and Management Report
at December 31, 2020

Translation of reports and accounts originally issued in Spanish and prepared in
accordance with generally accepted accounting principles in Spain (See Note 18).
In the event of a discrepancy, the Spanish-language version prevails

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PALMA PICTURES T.M.P.C., S.L.
Balance sheet at December 31, 2020 and 2019
(In euros rounded to the nearest unit)

BALANCE SHEET	Notes	2020	2019
A) NON-CURRENT ASSETS		8,943,007	9,138,571
I. Intangible assets	5	1,147,064	1,344,554
1. Patents, licenses, trademarks and similar		1,144,087	1,327,653
2. Software		2,977	16,901
II. Property, plant and equipment	6	7,594,085	7,749,917
1. Land and buildings		6,928,877	7,097,738
2. Plant and other PP&E items		665,207	652,179
III. Long-term investments in Group companies and associates	7	33,000	27,000
1. Equity instruments		33,000	27,000
IV. Long-term financial investments	7	12,402	794
2. Other financial assets		12,402	794
V. Deferred tax assets	11	156,456	16,306
B) CURRENT ASSETS		3,187,764	4,492,863
I. Trade and other receivables		903,031	720,246
1. Clients for sales and services rendered	7	539,919	416,440
2. Group companies		38,616	299,895
5. Other receivables from Public Administrations	11	324,496	3,911
II. Short-term financial investments	7	81,876	83,376
1. Equity instruments		81,876	83,376
III. Cash and cash equivalents	8	2,202,857	3,689,241
1. Cash		2,202,857	3,689,241
TOTAL ASSETS (A+B)		12,130,771	13,631,435

PALMA PICTURES T.M.P.C., S.L.
Balance sheet at December 31, 2020 and 2019
(In euros rounded to the nearest unit)

BALANCE SHEET	Notes	2020	2019
A) EQUITY		5,023,223	5,855,955
A.1) Equity		4,968,313	5,796,452
I. Share capital	9	3,400,000	3,400,000
1. Issued capital		3,400,000	3,400,000
II. Reserves	9	2,308,728	1,416,187
1. Legal and statutory		370,704	272,678
2. Other reserves		1,938,024	1,143,509
IV. Result for the year	3	(740,415)	980,264
A.2) Grants, donations and legacies	9	54,909	59,503
B) NON-CURRENT LIABILITIES		4,795,192	4,221,462
I. Long-term liabilities	10	3,198,018	2,532,904
1. Bank borrowings		3,198,018	2,532,904
II. Deferred tax liabilities	11	1,597,174	1,688,558
C) CURRENT LIABILITIES		2,312,357	3,554,018
I. Short-term provisions	12.3	27,366	61,016
II. Short-term borrowings	10	717,240	641,900
1. Bank borrowings		638,631	558,456
2. Other financial liabilities		78,609	83,444
IV. Trade creditors and other accounts payable	10	1,567,751	2,851,102
1. Suppliers		465,881	720,262
2. Personnel (remunerations pending payment)		25,781	239,299
3. Current tax liabilities	11	-	237,654
4. Other payables to Public Administrations	11	528,817	338,534
5. Prepayments from clients	11	547,271	1,315,354
TOTAL EQUITY AND LIABILITIES (A+B+C)		12,130,771	13,631,435

PALMA PICTURES T.M.P.C., S.L.
Income statement at December 31, 2020 and 2019
(In euros rounded to the nearest unit)

INCOME STATEMENT	Notes	2020	2019
A) CONTINUING OPERATIONS			
1. Revenue	12.1	7,309,367	19,187,182
a) Services rendered		7,309,367	19,187,182
2. Changes in inventories of finished goods.		-	(7)
3. Supplies	12.2	(393)	(590)
Consumption of goods for resale		(393)	(590)
4. Other operating income		12,921	189,424
5. Personnel expenses	12.3	(3,565,382)	(6,659,407)
a) Wages, salaries, et al		(2,677,904)	(5,409,397)
b) Social security costs		(887,478)	(1,250,010)
6. Other operating expenses		(4,244,679)	(10,888,998)
a) External services		(4,193,440)	(10,794,147)
b) Taxes		(46,622)	(88,246)
c) Losses, impairment and variation of provisions for commercial transactions		(4,616)	(6,606)
7. Depreciation and amortisation	5 & 6	(504,500)	(496,417)
8. Grants released to non-financial assets and other grants		4,594	13,757
9. Impairment losses and gains on disposal of assets (loss)		-	(1,272)
10. Other results		88,870	(419)
A.1) OPERATING PROFIT (1+2+3+4+5+6+7+8+9)		(899,201)	1,343,252
11. Finance income		72	202
a) From marketable securities and other financial instruments		72	202
a 2) In third parties		72	202
12. Finance costs		(62,618)	(42,498)
a) Third-party borrowings		(62,618)	(42,498)
13. Translation differences		(1,209)	(2,579)
A.2) FINANCE RESULT (10+11+12)		(63,755)	(44,875)
A.3) RESULT BEFORE TAX (A.1+A.2)	7.2	(962,956)	1,298,377
14 Income tax		222,541	(318,113)
A.4) RESULT FOR THE YEAR (A.3+13)	3	(740,415)	980,264

PALMA PICTURES T.M.P.C., S.L.
Statement of changes in equity corresponding to the year ending
December 31, 2020 and 2019 (In euros rounded to the nearest unit)

A) Statement of changes in equity for the year ended December 31, 2020 and 2019

	Note	2020	2019
A) Result of the Profit and Loss account		(740,415)	980,264
Income and expenses carried directly to equity			
Grants, donations and legacies		-	3,907
Tax effect arising from change of tax rate		-	-
B) Total income and expenses carried directly to equity		-	3,907
Transfers to profit and loss account			
Grants, donations and legacies	9.4	(6,126)	(18,343)
Tax effect	8.4	1,531	4,586
C) Total transfers to profit and loss account		(4,594)	(13,757)
TOTAL RECOGNISED INCOME AND EXPENSES (A+B+C)		(745,009)	970,414

PALMA PICTURES T.M.P.C., S.L.
Statement of changes in equity corresponding to the year ending
December 31, 2020 and 2019 (In euros rounded to the nearest unit)

B) Statement of total changes in equity for the year ended December 31, 2020 and 2019

2019	Subscribed capital (Note 9)	Legal reserve (Note 9)	Available reserves (Note 9)	Results for the year (Note 3)	Grants received	TOTAL
BALANCE AT JANUARY 1, 2019	3,400,000	189,669	562,446	830,090	69,353	5,051,559
Total recognised income and expenses	-	-	-	980,264	(9,850)	970,414
Other equity variations	-	83,009	581,063	(830,090)	-	(166,018)
BALANCE AT DECEMBER 31, 2019	3,400,000	272,678	1,143,509	980,264	59,503	5,855,955

2020	Subscribed capital (Note 9)	Legal reserve (Note 9)	Available reserves (Note 9)	Results for the year (Note 3)	Grants received	TOTAL
BALANCE AT JANUARY 1, 2020	3,400,000	272,678	1,143,509	980,264	59,503	5,855,955
Adjustments for errors in 2019 and previous years	-	-	(87,723)	-	-	(87,723)
Total recognised income and expenses	-	-	-	(740,415)	(4,594)	(745,009)
Other equity variations	-	98,026	882,238	(980,264)	-	-
BALANCE AT DECEMBER 31, 2020	3,400,000	370,704	1,938,024	(740,415)	54,909	5,023,223

PALMA PICTURES T.M.P.C., S.L.
Cash flow statement for the years ended
December 31, 2020 and 2019 (In euros rounded to the nearest unit)

	Notes	2020	2019
CASH FLOWS OF OPERATING ACTIVITIES			
Result for the year before tax		(962,956)	1,298,377
Adjustments to results		478,197	530,136
Amortisation/Depreciation (+)	5, 6	504,500	496,417
Variation of provisions (+/-)		4,616	-
Grants (-)		(4,594)	(9,850)
Results for withdrawal and disposal of assets (+/-)		-	1,272
Finance income (-)		(72)	(202)
Finance expenses (+)		62,618	42,498
Other results (+/-)		(88,870)	-
Changes in current capital		(1,145,091)	932,943
(Increase)/Decrease in Debtors and other accounts receivable		137,800	261,522
Increase/(Decrease) in Other current assets		(42,075)	-
Increase/(Decrease) in Creditors and other accounts payable		(467,898)	691,526
Other non-current assets and liabilities (+/-)		(772,918)	(20,106)
Other cash flows from operating activities		(309,193)	(312,305)
Interest payments (-)		(62,618)	(42,498)
Proceeds from interest (+)		72	202
Collections (payments) for income tax (+/-)	11	(246,647)	(270,009)
Cash flows from operating activities		(1,939,043)	2,449,151
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for investments (-)		(188,885)	(177,230)
Property, plant and equipment	6, 9.4	(175,395)	(137,290)
Intangible assets	5	(7,490)	(30,940)
Investments in Group companies	7	(6,000)	(9,000)
Proceeds from disinvestments (+)		-	14,499
Property, plant and equipment		-	14,499
Cash flows from investing activities		(188,885)	(162,731)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds and payments from financial liability instruments	10	641,544	(535,492)
Issue of bank borrowings		1,200,000	-
Return and amortisation of		(558,456)	(535,492)
Bank borrowings (-)		(558,456)	(535,492)
Payments for dividends and remuneration from other fin. instruments		-	(166,018)
Payments for dividends (-)		-	(166,018)
Cash flows from financing activities		641,544	(701,510)
NET INCREASE/DECREASE OF CASH OR CASH EQUIVALENTS		(1,486,384)	1,584,909
Cash and cash equivalents at January 1	8	3,689,241	2,104,332
Cash and cash equivalents at December 31	8	2,202,857	3,689,241

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2020
(In euros rounded to the nearest unit)

1. THE COMPANY'S ACTIVITY

PALMA PICTURES HOLDING, S.L., which was formed in Spain for an indefinite period on November 29, 2005, changed its name in 2007 to PALMA PICTURES THE MEDITERRANEAN PRODUCTION CENTER, S.L.U. (hereinafter the Company), which is the name of its subsidiary acquired by merger, effective as of January 1, 2007. The 2007 annual accounts contain all the legally required information regarding said merger.

According to the Register of Companies, the Company's business activities are, among others, film and video production services and the direction, organisation and human and material resources for the filming of said films and videos.

The registered office of the Company is C/Siurells, N° 4, 07141 Marratxí, Mallorca, Balearic Islands.

2. BASIS OF PRESENTATION

The annual accounts have been prepared in accordance with the Spanish GAAP approved by Royal Decree 1514/2007 of November 16, which has been modified in 2016 by Royal Decree 602/2016, dated December 2, as well as prevailing mercantile law.

The figures shown in these annual accounts are presented in euros, rounded off to the nearest unit, unless otherwise indicated.

2.1 True and fair view

The accompanying annual accounts have been prepared from the Company's auxiliary accounting records in accordance with prevailing accounting legislation to give a true and fair view of its equity, financial position and results. The cash flow statement has been prepared to reliably present the origin and use of monetary assets such as cash and cash equivalents.

These annual accounts have been prepared by the Directors of the Company and will be submitted for approval by the shareholders in their General Meeting. It is expected that they will be approved without modification. The 2019 annual accounts were approved by the Shareholders at their General Meeting on April 24, 2020.

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2020
(In euros rounded to the nearest unit)

2.2 Comparison of information

In accordance with mercantile legislation, for comparative purposes, the 2020 balance sheet, profit and loss account, statement of changes in equity and cash flow statement, include, in addition to the 2020 figures, those of 2019. The Notes to the Accounts also include quantitative information from 2019, except in those cases where an accounting standard specifically states that it is unnecessary.

2.3 Effects of the COVID-19 pandemic on the Company's activity

On March 11, 2020, the World Health Organisation declared that they considered the coronavirus (COVID-19) outbreak to be an international pandemic. The swift development of the situation, on both a national and international scale, has resulted in an unprecedented health crisis, which will have an impact on the macroeconomic environment and the evolution of businesses. In order to confront this situation, in 2020, a number of measures were implemented to mitigate the economic and social impact, including the restricted movement of people. Specifically, the Spanish government declared a state of alarm, through the publication of Royal Decree 463/2020, dated March 14, which was lifted on July 1, 2020 and approved a number of extraordinary urgent measures in order to address the economic and social impact of COVID-19, by means of Royal Decree Law 8/2020, dated March 17. At the preparation date of these annual accounts, the state of alarm declared by the Spanish government through Royal Decree 926/2020, dated October 25, still prevails. Said state of alarm was initially approved until November 9, 2020 and, was extended until May 9, 2021 through the publication of Royal Decree 956/2020, dated November 3.

The evolution of the pandemic is having consequences on both the economy in general and on the Company's operations. The consequences are uncertain in the forthcoming months and will, to a large extent, depend on the evolution and spread of the pandemic.

As a result of the effects of this pandemic, in 2020, the Company's sales have been significantly reduced (Note 12.1) due to the drop in demand film production services and advertisements arising from lockdowns and restricted travel. The Company's directors have adopted various measures in order to mitigate the effects of the reduced activity on the Company's liquidity situation and to strengthen the Company's financial situation including, among others:

- Reduction of personnel costs through the adoption of various measures, the most significant being the Temporary Redundancy Plan (ERTE) affecting 95% of the workforce in Spain during the period between April 2, 2020 and May 31, 2021 (Note 12.3)

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2020
(In euros rounded to the nearest unit)

- Obtain new bank financing (ICO loan of 1 million euros) (Note 10.1)
- Negotiations with the banks used by the Company. It is worth mentioning that they have expressed their intentions to continue giving financial support to the Company. Among other cases, evidence of this support is the renovation, in January 2021, of the credit line of 700,000 euros with La Caixa and the willingness of Banca March to renew the credit facility of 250,000 euros when it matures in April 2021 (Notes 10.1 and 14).

In the face of the existing uncertainty, if there is a negative evolution of the health crisis that results in the generation of cash flows in the next twelve months that are much lower than those contemplated in the treasury projections prepared by the Company, the directors intend to enter into negotiations with financial entities in order to obtain more new lines of financing to cover the committed payments in the next twelve months. The directors consider that the historic results obtained by the Company, together with the fact that it owns a warehouse worth much more than the bank debts with a mortgage guarantee, are sufficient evidence to ensure, if necessary, the ability to obtain further funding lines.

2.4 Going concern principle

As a result of the effects of the COVID-19 pandemic described in Note 2.3, in 2020, the Company has had operating losses amounting to 899.201 euros. The Company Directors consider that the application of the going concern principle is not jeopardised, since the cash and banks included in the balance sheet, the credit facilities and the available funding lines, together with, not only the bank's confidence in the Company's health, which has led to the renovation of the non-guaranteed credit lines at their maturity date (Notes 10.1 and 14), but also the measures implemented and foreseen in order to mitigate the effects of COVID-19 described in Note 2.3, will allow the necessary results and cash flows to be obtained to meet the current liabilities. Moreover, if necessary, the Directors have stated that the Company has the financial support of its shareholders. As a result, the Company Directors have prepared the annual accounts based on the going concern principle.

2.5 Critical issues concerning the assessment of uncertainty

The Directors have prepared the Company's annual accounts using estimates to determine the carrying amount of certain assets, liabilities, income and expenses and the breakdown of contingent liabilities. These estimates have been made based on the best information available at year-end. Nonetheless, given the uncertainty inherent to them, future events may occur which oblige their modification in the following years. Where necessary said modifications would be undertaken prospectively. The key assumptions regarding the future, in addition to other relevant information regarding the uncertainty estimation at the reporting date, which represent a considerable risk that the carrying amounts of assets and liabilities may require significant adjustments in the following financial year, are as follows:

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2020
(In euros rounded to the nearest unit)

Impairment of non-current assets

The valuation of non-current assets, different from financial assets, requires estimates to be made in order to determine their fair value, to assess possible impairment. In order to determine the fair value, the Company's Directors estimate future cash flows expected from the assets or cash-generating units in which they are included and use an appropriate discount rate to calculate the present value of these cash flows. Future cash flows depend on the budgets for the following five years being met and the discount rates depend on the interest rate and the risk premium related to each cash-generating unit.

Deferred tax assets

Deferred tax assets are recognised for all taxable temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that the Company will have taxable profit available which will allow the application of these assets. The Directors make significant estimates to determine the amount of deferred tax assets that can be recognised, taking into account the amounts and dates on which the future taxable profit will be obtained and the reversion period of the taxable temporary differences.

3. DISTRIBUTION OF RESULTS

The appropriation of results proposed by the Directors, pending approval by the shareholders in their general meeting, is as follows, in euros:

Euros	2020	2019
Basis of distribution		
Income statement balance	(740,415)	980,264
	(740,415)	980,264
Distribution		
To reserves	-	980,264
To losses from previous years	(740,415)	-
	(740,415)	980,264

4. VALUATION CRITERIA

The main recognition and measurement accounting policies applied in the preparation of these annual accounts are the following.

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2020
(In euros rounded to the nearest unit)

4.1 Intangible assets

Intangible assets are stated at acquisition or production cost, as applicable, less any accumulated amortisation and any possible losses due to impairment. An intangible asset is only recognised as such if it is probable that it will generate future profit for the Company and if its cost can be reliably valued.

Acquisition or production cost includes financial expenses related to specific or generic financing accrued before those assets which require more than a year to be ready for use have been put into use.

Intangible assets have a finite useful life and are systematically amortised during their estimated useful life and their recoverability is analysed in the case of events or changes which indicate that the carrying value may not be recoverable. The amortisation methods and periods applied are reviewed at year-end and, where applicable, adjusted on a prospective basis.

The amortisation of intangible assets is performed according to the following criteria:

- The Brand - corresponds to the difference generated in the 2007 merger between the acquisition cost of the absorbed company and its notional book value, less the capital gains relating to the tangible fixed assets and increased by the amount of the deferred taxes arising from the merger operation all based on an appraisal performed by an independent expert. The brand is amortised on the straight-line method over a twenty-year period starting from the merger date, January 1, 2007, as this is the period in which the Directors consider that it will generate profits for the Company (See Note 5).
- The software applications, which are acquired from third parties, are amortised using the straight-line method over the five-year period in which they are expected to be in use. Software maintenance costs are carried to expenses when incurred.

4.2 Property, plant and equipment

Property, plant and equipment are stated at acquisition or production cost, less accumulated depreciation and possible losses due to impairment in value. Costs incurred to renovate, expand or improve property, plant and equipment are attributed to the asset as greater value to the extent that they imply an increase in capacity, productivity or length of useful life and as long as it is possible to reasonably know or estimate the carrying value of the assets, which, due to having been substituted, must be withdrawn from the inventory.

PALMA PICTURES T.M.P.C., S.L.
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Acquisition or production cost includes financial expenses related to financing accrued before those assets which require more than a year to be ready for use have been put into use.

The Company depreciates property, plant and equipment on the straight-line method, distributing the cost between the estimated years of useful life.

Assets	% Annual amortisation
Buildings and constructions	2-3
Machinery	12
Other installations	5.5
Furniture and fittings	5-7
Data processing equipment	12.5
Vehicles	12.5
Other assets	5.5

At each financial year end the Company reviews the residual values, useful lives and depreciation methods of PP&E and if appropriate adjusts them on a prospective basis.

4.3 Impairment of non-financial assets

The Company assesses at each year end whether there is an indication that a non-current asset or, where applicable, a cash-generating unit may be impaired. If there is any indication of impairment, and in any case, for intangible assets with indefinite useful lives, the Company estimates the asset's recoverable amount.

The recoverable amount is the higher of fair value less cost to sell and value in use. When the carrying amount is higher than the recoverable amount, the asset is considered to be impaired. Value in use, is the present value of the expected future cash flows using risk free market rates, adjusted by the risks specific to the asset.

Impairment loss and its reversion are recognised in the income statement. Impairment loss is reversed only if the circumstances giving rise to it have ceased to exist, except those relating to goodwill. The reversal is limited to the carrying amount that would have been determined had no impairment loss been recognised for the asset.

4.4 Leases

Leases are considered to be financial leases when, based on the economic terms of the arrangement, all risks and rewards incidental to ownership of the leased item are substantially transferred to the Company. All other lease arrangements are classified as operating leases.

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Company as lessee

Assets acquired under financial lease arrangements are recognised, based on their nature, at the fair value of the leased item or, if lower, the present value at the commencement of the lease of the minimum lease payments, including the purchase option, recognising a financial liability for the same amount. The calculation of the minimum agreed payments does not include contingent instalments, the cost of the services and taxes recoverable by the lessor. Lease payments are apportioned between finance charges and reduction of the lease liability.

The total financial charge of the contract is carried to results for the year in which it is accrued, applying the effective interest rate method. These assets are depreciated, impaired, and derecognised using the same criteria applied to assets of a similar nature.

Operating lease payments are recognised as expenses in the income statement when accrued.

4.5 Inventories

Inventories are valued at acquisition cost, production cost or fair value. In general, for those goods whose acquisition or production cost is not individually identifiable, the weighted average cost will be used. Irreversible losses are withdrawn from inventories.

4.6 Cash and cash equivalents

This heading includes cash, current accounts, short-term deposits and temporary purchases of assets which fulfil all the following requirements:

- They are readily convertible to cash.
- They mature within less than three months from the acquisition date or they can be cancelled at any time without penalisation.
- The risk of change in value is insignificant.
- They are part of the Company's standard cash management strategy.

In terms of the cash flow statement, occasional bank overdrafts used as part of the Company's cash management strategy are recognised as a decrease in cash and cash equivalents.

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4.7 Financial assets

4.7.1 Recognition and measurement

Loans and receivables

The Company recognises in this category trade and non-trade receivables, which include financial assets with fixed or determinable payments not quoted on active markets and for which the Company expects to recover the full initial investment, except, where applicable, in cases of credit deterioration.

Upon initial recognition in the balance sheet, they are recognised at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs.

Following initial recognition, these financial assets are measured at amortised cost.

Nonetheless, those credits arising from trade operations which mature in less than a year and do not have a contracted interest rate, as well as advance payments and credits to personnel, the dividends receivable and called-up payments on equity instruments which are expected to be received in the short-term, are valued at face value in both the initial and subsequent valuations, when the effect of not updating the cash flows is not significant.

Held-to-maturity investments

Held-to-maturity investments include debt instruments with fixed maturities and fixed or determinable payments traded on active markets which the Company has the positive intention and the ability to hold to maturity.

Upon initial recognition in the balance sheet, they are recognised at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs.

Following initial recognition, these financial assets are measured at amortised cost.

Investments in Group companies

This category includes investments in companies in which the entity exercises control.

Upon initial recognition in the balance sheet, they are recognised at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs, except in the case of non-monetary contributions to a Group company for the purpose of a business, when the investment is measured at the carrying amount of the assets constituting the business. The initial value includes preferential subscription and similar rights.

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Following initial measurement, these financial assets are stated at cost, less any accumulated impairment loss.

4.7.2 Derecognition of financial assets

The Company derecognises a financial asset, or part of a financial asset, when the contractual rights to related cash flows have expired or when the assets are transferred, provided that related risks and rewards are substantially transferred.

The difference between the consideration received, net of attributable transaction costs, determines the gain or loss generated upon derecognition, and is included in the income statement in the year to which it relates.

4.7.3 Impairment of financial assets

The carrying amount of financial assets is adjusted against the income statement when there is objective evidence of actual impairment.

4.7.4 Hedge derivatives

This heading includes financial derivatives classified as hedging instruments. Financial instruments which have been designated as hedging instruments or hedged items are measured as explained in Note 4.18.

4.8 Financial liabilities

4.8.1 Recognition and measurement

Debits and accounts payable

This category includes financial liabilities generated by the purchase of goods and services arising from trade transactions, and non-trade payables that are defined as those financial liabilities which are not derivative instruments and therefore, are not of a trade nature.

Following initial recognition, these financial liabilities are measured at amortised cost. Accrued interest is recognised in the income statement using the effective interest rate method. Nevertheless, trade payables which mature within less than one year with no contractual interest rate, as well as called-up payments on shares, the amount of which is expected in the short term, in both the initial and subsequent valuations, are carried at the nominal value when the effect of not discounting cash flows is not significant.

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4.8.2 Derecognition of financial liabilities

The Company derecognises a financial liability when the obligation under the liability is extinguished.

The difference between the carrying amount of the derecognised financial liability and the compensation paid, including any attributable transaction costs, which also includes any new asset transferred other than cash or liability assumed, is recognised in the income statement in the year to which it relates.

4.8.3 Hedge derivatives

This heading includes financial derivatives classified as hedging instruments. Financial instruments which have been designated as hedging instruments or hedged items are measured as explained in Note 4.18.

4.9 Provisions and contingencies

Provisions with undetermined amounts and cancellation dates are recognised in the balance sheet as provisions when the Company has a present obligation (derived from a contract through its explicit or implicit terms, legislation or other operation of law), as a result of past events and it is probable that a quantifiable outflow of resources will be required to settle the obligation.

Provisions are measured at the present value of the best estimate of the amount that an entity would rationally pay to settle the obligation or to transfer it to a third-party recognising provision discount adjustment as a finance cost as they accrue. No discounts are made on those provisions falling due within twelve months that do not have a significant financial effect. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of the liability corresponding to each moment.

4.10 Income tax

Income tax expense for the year is calculated as the sum of current tax resulting from applying the corresponding tax rate to taxable profit for the year, less any applicable rebates and tax credits, taking into account changes during the year in recognised deferred tax assets and liabilities. The corresponding tax expense is recognised in the income statement, except when it relates to transactions recognised directly in equity, in which case the corresponding tax expense is likewise recognised in equity.

Deferred income tax is recognised for the temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. The tax base of an asset or liability is the amount attributed to it for tax purposes.

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The tax effect of temporary differences is included in “Deferred tax assets” or “Deferred tax liabilities” on the balance sheet, as applicable.

Deferred tax liabilities are recognised for all temporary differences, except where disallowed by prevailing tax legislation.

The Company recognises deferred tax assets for all deductible temporary differences, unused tax credits and unused tax loss carry forwards, to the extent that it is probable that future taxable profit will be available against which these assets may be utilised, except where disallowed by prevailing tax legislation.

At each financial year end, the Company assesses the deferred tax assets recognised and those that have not yet been recognised. Based on this analysis, the Company derecognises the asset recognised previously if it is no longer probable that it will be recovered, or it recognises any deferred tax asset that had not been recognised previously, provided that it is probable that future taxable profit will be available against which these assets may be utilised.

Deferred tax assets and liabilities are measured at the tax rate expected to apply to the period in which they reverse, as required by enacted tax laws and in the manner in which it reasonably expects to recover or settle the deferred tax asset or liability.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets or non-current liabilities irrespective of the date of their expected realisation or settlement.

4.11 Income and expenses

In accordance with the accruals principle, income and expenses are recognised when they are incurred, regardless of when actual payment or collection occurs.

Income for sales or services rendered

Income is recognised when it is probable that the profit or economic benefits from the transaction will flow to the entity and the amount of income and costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, less any discounts, rebates, and other similar items given by the Company, and any interest included in the nominal amount of loans. Applicable indirect taxes on transactions which are reimbursed by third parties are not included.

Other income and expenses

In general, income and expenses are recognised applying the accruals principle, that is, when the goods or services they represent take place, regardless of when actual payment or collection occurs.

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4.12 Transactions in foreign currency

Transactions in foreign currency are initially translated at the spot rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency are translated at the spot rate prevailing at the balance sheet date. All exchange gains or losses arising from translation as well as those resulting on settlement of balance sheet items are recognised in the income statement of the year in which they occur.

4.13 Environmental assets and liabilities

Costs incurred in the acquisition of systems, equipment and installations whose aim is the elimination, limitation or control of the possible impact of the normal development of the Company's activity on the environment, are considered to be investments. Other expenses related to the environment which are not related to the acquisition of assets are considered to be expenses for the year.

4.14 Transactions with related parties

Transactions with related parties are recorded in accordance with the abovementioned valuation criteria.

Since the cost of transactions with related parties are adequately borne, the Company Directors consider that there is no risk of significant tax liabilities arising.

4.15 Indemnities for dismissal

In accordance with prevailing labour legislation, the Company is obliged to pay indemnities to those employees who terminate their contracts under certain conditions. Indemnities for dismissal subject to reasonable quantification are recognised as an expense for the year in which a valid expectation exists, created by the Company before the affected third parties.

4.16 Grants

Grants are recognised as non-repayable when the requirements established for receiving them are met and are recognised directly in equity, net of the corresponding tax effect.

Grants received to finance specific expenses are released to the income statement in the year in which the financed expenses are incurred.

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Grants received to acquire property; plant and equipment are released to income in proportion to the depreciation charged for the related assets.

4.17 Classification of current and non-current assets and liabilities

Assets and liabilities are classified in the balance sheet as current and non-current.

Accordingly, assets and liabilities are classified as current when they are associated with the Company's normal operating cycle and it is expected that they will be sold, consumed, realised or settled within the normal course of that cycle; if they differ from the aforementioned assets, and are expected to mature, to be sold or settled within one year; if they are held for trading or are cash and cash equivalents the use of which is not restricted. The normal operating cycle for all the activities is of less than a year.

4.18 Hedge accounting

Only those operations which effectively eliminate an inherent risk of the covered item or position throughout the period for which the hedge was designated are considered as hedge operations. This implies that at the inception of the hedge and in subsequent years, it is expected to be highly effective (prospective effectiveness) and that there is sufficient evidence that the hedge has been effective during the life of the item or position covered (retrospective effectiveness).

Hedge accounting, when significant, is correctly documented including the manner in which it is expected to be achieved and how its effectiveness will be measured, in accordance with the Company's risk management policy. In order to measure the effectiveness of the hedges, the Company performs tests to verify that the differences arising from the variations in the flows of the hedged item and its cover are maintained within a range of 80% and 125% throughout the life of the hedge operations, thus fulfilling the provisions established at their inception.

When the hedging relationship no longer complies with the criteria to be accounted for as such, it is reclassified as a trading derivative.

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5. INTANGIBLE FIXED ASSETS

The breakdown and movement of intangible fixed assets are as follows:

Euros

2020	Balance at January 1,	Additions	Transfers	Balance at December 31
Cost				
Software	222,779	-	-	222,779
Brands	3,820,284	7,490	-	3,827,774
	4,043,063	7,490	-	4,050,553
Accumulated amortisation				
Software	205,878	13,924	-	219,802
Brands	2,492,631	191,055	-	2,683,686
	2,698,509	204,980	-	2,903,489
Carrying value	1,344,554			1,147,064

2019	Balance at January 1,	Additions	Transfers	Balance at December 31
Cost				
Software	193,207	29,572	-	222,779
Brands	3,818,916	1,368	-	3,820,284
	4,012,123	30,940		4,043,063
Accumulated amortisation				
Software	193,207	12,671	-	205,878
Brands	2,301,578	191,053	-	2,492,631
	2,494,785	203,723		2,698,509
Carrying value	1,517,337			1,344,554

The Brand relates to the difference between the notional book value of the acquired Company decreased by the capital gains on property, plant & equipment and increased by the amount of deferred taxes deriving from the merger mentioned in Note 1. Said amount, which is not tax deductible, is amortised on the straight-line method over a twenty-year period starting on January 1, 2007, which is the merger date, as the Directors consider that this is the period in which it will generate profits.

The cost and accumulated amortisation of the brand at January 1, 2008, include a total of 772,753 and 38,638 euros, respectively, relating to deferred taxes which, in accordance to the 2007 General Accounting Plan, must be recognised on the transition date. Said deferred taxes are related to the capital gain following the merger mentioned in Note 1. In accordance with the valuations performed, said deferred tax has been recorded as a greater value of the brand.

Fully amortised intangible assets amount to 338,756 euros (324,703 euros in 2019).

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6. PROPERTY, PLANT & EQUIPMENT

The breakdown and movement of the accounts under this heading are as follows:

Euros	Balance at January 1, 2020	Additions and provisions	Disposals	Transfers	Balance at December 31, 2020
2020					
Cost					
Land	3,462,307	-	-	-	3,462,307
Buildings	7,490,103	-	-	-	7,490,103
Technical plant and machinery	2,221,923	135,508	-	-	2,357,431
Other PP&E items	982,267	-	-	-	982,267
Vehicles	729,814	31,708	-	-	761,522
Data processing equipment	291,440	7,024	-	-	298,464
Other tangibles	287,866	1,155	-	-	289,021
	15,465,721	175,396	-	-	15,641,116
Accumulated amortisation					
Buildings	3,854,672	168,861	-	-	4,023,533
Technical plant and machinery	1,940,121	69,538	-	-	2,009,659
Other PP&E items	883,058	15,314	-	-	898,372
Vehicles	579,990	60,254	-	-	640,244
Data processing equipment	239,680	9,833	-	-	249,513
Other tangibles	218,285	7,427	-	-	225,712
	7,715,806	331,228	-	-	8,047,033
Carrying value	7,749,915				7,594,083

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Euros	Balance at January 1, 2019	Additions and provisions	Disposals	Transfers	Balance at December 31, 2019
2019					
Cost					
Land	3,462,307	-	-	-	3,462,307
Buildings	7,490,103	-	-	-	7,490,103
Technical plant and machinery	2,208,074	13,849	-	-	2,221,923
Other PP&E items	974,885	7,382	-	-	982,267
Vehicles	705,071	94,466	(69,722)	-	729,814
Data processing equipment	273,134	18,306	-	-	291,440
Other tangibles	284,579	3,287	-	-	287,866
	15,398,154	137,290	(69,722)		15,465,721
Accumulated amortisation					
Buildings	3,685,174	169,498	-	-	3,854,672
Technical plant and machinery	1,883,105	57,016	-	-	1,940,121
Other PP&E items	860,565	22,493	-	-	883,058
Vehicles	606,196	27,744	(53,950)	-	579,990
Data processing equipment	231,241	8,439	-	-	239,680
Other tangibles	210,781	7,504	-	-	218,285
	7,477,062	292,694	(53,950)	-	7,715,806
Carrying value	7,921,092				7,749,915

At December 31, 2020, the land and building balances include capital gains amounting to 2,075,813 and 3,129,143 euros, respectively (2,075,813 and 3,298,004 euros in 2019), resulting from the merger mentioned in Note 1, and based on two independent appraisals carried out in 2006. Said capital gains are not tax deductible. For this reason, the corresponding amortisation charge has been increased in the taxable basis for each year.

At December 31, 2020, totally depreciated property, plant and equipment amount to 5,164,653 euros (5,129,512 euros in 2019).

Land and buildings are mortgaged with the guarantee of two similar loans which are detailed in Note 10.1.

The Company has contracted insurance policies which cover the carrying value of the Property, Plant and Equipment.

In previous years grants related to Property, Plant & Equipment were received, as is mentioned in Note 9.4.

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7. FINANCIAL ASSETS

The breakdown of financial assets at December 31 is as follows:

Euros	Equity Instruments		Credits and others		Total	
	2020	2019	2020	2019	2020	2019
Non-current financial assets						
Investments in Group companies	33,000	27,000	-	-	33,000	27,000
Long-term financial investments	-	-	12,402	793	12,402	793
	33,000	27,000	12,402	793	45,402	27,793
Current financial assets						
Trade and other receivables (*)	-	-	578,535	716,335	578,535	716,335
Short-term financial investments	81,876	83,376	-	-	81,876	83,376
	81,876	83,376	578,535	716,335	660,411	799,711
TOTAL	114,876	110,376	590,937	717,128	705,813	827,504

*Excluding balances with Public Administrations

7.1 Investments in Group companies

The breakdown of financial investments in Group companies is as follows:

Euros	2020	2019
NW Mallorca 2017, S.L.U.	3,000	3,000
Living the Dream Company, S.L.U.	3,000	3,000
Finca Producciones SPA, S.L.	3,000	3,000
Ten Cents Films S.L.U.	3,000	3,000
White Lines Films, S.L.	3,000	3,000
Off The Rails Films, S.L.	3,000	3,000
Nosotros Productions, S.L.	3,000	3,000
Last Letter Films, S.L.U.	3,000	3,000
Chica Morena Productions, S.L.	3,000	3,000
Picada Productions, S.L.	3,000	-
Batalla Productions, S.L.	3,000	-
Impairment provision	-	-
	33,000	27,000

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The main figures of the Group companies are as follows:

Euros	%	Share capital	Reserves	Results from previous years	Profit (losses) for the year	Total Equity
NW Mallorca 2017, S.L.U.	100%	3,000	-	(983)	(1,075) (*)	942
Living the Dream Pictures, S.L.U.	100%	3,000	985,243	-	(6,186) (*)	982,057
Finca Producciones SPA, S.L.	100%	3,000	8,558	-	9,716 (**)	21,274
Ten Cents Films, S.L.U.	100%	3,000	1,048	-	49,711 (****)	53,759
White Lines Films, S.L.	100%	3,000	-	-	10,442 (*)	13,442
Off The Rails Films, S.L.	100%	3,000	-	17,052	(12,273) (***)	7,779
Nosotros Productions, S.L.	100%	3,000	-	-	3,297 (*)	6,297
Last Letter Films, S.L.U.	100%	3,000	130,130	-	4,142 (*)	137,272
Chica Morena Productions, S.L.	100%	3,000	-	-	10,271 (*)	13,271
Picada Productions, S.L.	100%	3,000	-	-	8,980 (**)	11,980
Batalla Productions, S.L.	100%	3,000	-	-	-	3,000

(*) Last available information: Result for the year at December 31, 2019

(**) Last available information: Result for the year at June 30, 2019

(***) Last available information: Result for the year at May 31, 2019

(****) Last available information: Result for the year at July 31, 2019

The Company NW MALLORCA 2017, S.L.U. was constituted in 2017 to undertake a television project. This company has remained dormant in 2020.

LIVING THE DREAM PICTURES, S.L.U. was constituted in 2017 under another name (PAN Y VINO PRODUCTIONS, S.L.U.) which was changed in February 2018. This company has remained dormant in 2020.

FINCA PRODUCCIONES SPA, S.L. was constituted on May 16, 2018. This company was constituted in order to undertake a project throughout 2018, 2019 and 2020.

TEN CENTS FILMS, S.L.U. was constituted on July 17, 2018. This company was constituted in order to undertake a project throughout 2018 and 2019. In 2020, the Company has remained dormant.

WHITE LINES FILMS, S.L. was constituted on November 29, 2018. This company was constituted in order to undertake a project in 2019. In 2020, the Company has remained dormant.

OFF THE RAILS FILMS, S.L. was constituted on December 12, 2018. This company was constituted in order to undertake a project in 2019. In 2020, the Company has remained dormant.

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NOSOTROS PRODUCTIONS, S.L. was constituted on June 4, 2019. This company was constituted in order to undertake a project in 2019. In 2020, the Company has remained dormant.

LAST LETTER FILMS, S.L.U. was constituted on September 13, 2019. This company was constituted in order to undertake a project in 2019. In 2020, the Company has remained dormant.

CHICA MORENA PRODUCTIONS, S.L.U. was constituted on June 13, 2019. This company was constituted in order to undertake a project in 2019. In 2021, the Company has remained dormant.

PICADA PRODUCTIONS, S.L.U. was constituted on January 21, 2020. This company was constituted in order to undertake a project in 2021.

BATALLA PRODUCTIONS, S.L.U. was constituted on February 6, 2020. This company was constituted in order to be prepared for future shoots.

Due to its size, the Company is exempt from preparing annual accounts for the group of which it is the Parent Company, as specified in the Standards for the Preparation of Consolidated Annual Accounts.

7.2 Trade and other receivables

Trade debt

The breakdown at December 31 is as follows:

	2020	2019
Clients for sales and services rendered	539,919	416,440
Clients, Group companies and associates	38,616	299,895
Total	578,535	716,335

Value adjustments

The “Clients for sale and services rendered” balance is presented net of impairment adjustments. Movement for said adjustments has been as follows:

(Euros)	2020	2019
Opening balance	-	-
Net charges	-	-
Write-offs	-	-
Final balance	-	-

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8. CASH AND CASH EQUIVALENTS

The breakdown and movement of this caption at December 31 are the following:

Euros	2020	2019
Cash	13,368	11,853
Current accounts	2,189,489	3,677,388
Total	2,202,857	3,689,241

Current accounts and other cash equivalents bear the market interest rates commonly established for this type of accounts and assets.

Cash and cash equivalents are unrestricted.

9. EQUITY

9.1 Subscribed capital

The share capital at December 31, 2020, consists of 3,400,000 registered shares with a par value of 1 euro each, fully subscribed and paid up. All the shares have the same political and economic rights. The Company is not listed.

The only shareholder which is not an individual and holds more than 10% of the Company's share capital is Zallaz, S.A. with a 50.50% participation (50.50% in 2019).

9.2 Legal reserve

As per Spanish mercantile law, the Company is required to transfer 10% of the profits for the year to a legal reserve until said reserve reaches an amount equal to at least 20% of the share capital. This reserve is non-distributable and may only be used to offset losses should no other reserves be available.

9.3 Other reserves

The amount recorded in this caption is freely distributable, subsequent to the offset of losses.

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9.4 Grants

The breakdown of this account is as follows:

2020 (euros)	Balance at January 1	Additions	Transfers to Profit and Loss	Balance at December 31
Cost:				
Grants for purchase of assets	57,864	-	(4,594)	53,270
Grants for purchase of assets 2010	79	-	-	79
Grants for purchase of assets 2011	1,560	-	-	1,560
Total	59,503	-	(4,594)	54,909

2019 (euros)	Balance at January 1	Additions	Transfers to Profit and Loss	Balance at December 31
Cost:				
Grants for purchase of assets	61,287	-	(3,423)	57,864
Grants for purchase of assets 2010	931	-	(852)	79
Grants for purchase of assets 2011	2,652	-	(1,092)	1,560
Grants for purchase of assets 2017	4,483	-	(4,483)	-
Grants for purchase of assets 2019	-	3,907	(3,907)	-
Total	69,353	3,907	(13,757)	59,503

In previous years the Company received a non-refundable grant for an initial amount of 163,000 euros which is released to results at 3% on a yearly basis as it was intended for the acquisition of Property, Plant & Equipment items.

In 2010 and 2011, grants were obtained amounting to 12,176 and 15,602 euros respectively, for the acquisition of property, plant and equipment. Both are carried to income by the straight-line method over 10 years, as this is the depreciation period of the elements acquired with the grants.

In 2017, a capital grant amounting to 13,582 euros (10,187 euros net of tax) was received for an investment in solar panels.

In 2019, a grant was received from the CAIB (Balearic Islands Autonomous Community) for an amount of 3,907 euros, for the indefinite contracting of an employee with disabilities.

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2020
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10. FINANCIAL LIABILITIES

At December 31, the breakdown of financial liabilities is as follows:

Euros	Bank borrowings		Others		Total	
	2020	2019	2020	2019	2020	2019
Long-term financial liabilities:						
Debits and accounts payable	3,198,018	2,532,904	-	-	3,198,018	2,532,904
	3,198,018	2,532,904	-	-	3,198,018	2,532,904
Current financial liabilities:						
Debits and accounts payable	638,631	558,456	78,609	83,444	717,240	641,900
Trade creditors and other account payables	-	-	1,038,934	2,274,915	1,038,934	2,274,915
	638,631	558,456	1,117,543	2,358,358	1,756,174	2,916,814
TOTAL	3,836,649	3,091,360	1,117,543	2,358,358	4,954,192	5,449,718

The breakdown of financial liabilities at December 31 is as follows:

Euros	2020	2019
Non-current liabilities:		
Bank borrowings	3,198,018	2,532,904
	3,198,018	2,532,904
Current liabilities:		
Bank borrowings	638,631	558,456
Suppliers and creditors	465,881	720,262
Debts with personnel	25,781	239,299
Guarantees received	72,600	72,600
Prepayments from clients	547,271	1,315,354
Other current liabilities	6,009	10,845
	1,756,174	2,916,814

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10.1 Bank borrowings

The breakdown of bank borrowings is as follows:

	Initial amount	Balance at 31.12.20	Balance at 31.12.19	Formalisation date	Maturity
Mortgage loan Bankia	1,438,524	806,231	901,910	30.12.2014	31.12.2029
Mortgage loan B. March	1,470,235	945,549	942,888	30.12.2014	01.01.2030
Loan La Caixa	1,000,000	282,051	282,051	18.03.2016	30.09.2022
Loan Banco Sabadell		-	5,956		
Loan Targo Bank	29,477	-	4,059	24.09.2016	24.08.2021
ICO Loan La Caixa	34,346	7,105	14,090	14.12.2017	13.12.2022
Loan Banco Popular	130,000	41,942	68,059	17.07.2018	17.07.2023
Mortgage loan Banco Popular	650,000	150,685	313,891	30.11.2018	30.11.2022
Loan Banco Santander	200,000	126,220	-	31.01.2020	30.01.2025
ICO Loan Banco Santander	1,000,000	838,235	-	07.04.2020	06.04.2025
Total long-term borrowings		3,198,018	2,532,904		
Mortgage loans - short term	-	305,085	354,216		
Other bank loans -short term	-	333,547	204,240		
Total short-term borrowings		638,631	558,456		
Total bank borrowings		3,836,649	3,091,360		

The interest rate of loans is referenced to the Euribor rate.

Moreover, the Company has a credit line with La Caixa, with a limit of 700,000. None of this credit line has been drawn down at closing. This credit line matures in January 2021, although it is expected to be renewed on its maturity date.

Moreover, the Company has a credit line with Banca March, with a limit of 250,000 euros. None of this credit line has been drawn down at closing. This credit line matures in April 2021, although it is expected to be renewed on its maturity date.

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The breakdown of the maturity of the bank borrowings is as follows:

At 31.12.20	2021 (Short-term)	2022	2023	2024	2025	Remainder	Total long-term
Bank loans	638,631	710,034	415,443	402,203	388,963	1,281,376	3,198,018
Total							

At 31.12.19	2020 (Short-term)	2021	2022	2023	2024	Remainder	Total long-term
Bank loans	558,456	555,350	509,347	214,756	201,516	1,051,935	2,532,904
Total							

The information regarding the nature and extent of risks arising from financial instruments is as follows:

- As a result of the development of its activity and operations, the Company is exposed to financial risks, mainly arising from interest rates, since the risk from exchange rates is minimum. To be specific, the Company is exposed to an interest rate risk arising from financing in euros, basically at a variable interest rate.
- The Company is financed by loans with a variable interest rate. At December 31, 2020, the Company does not use derivative financial instruments since it considers that the effect and fluctuations arising from other currencies different from the euro are not significant.
- The Company manages the risk of a temporary cash shortage through the supervision of its cash budget, which takes into account the maturity of financial investments, assets, liabilities and the operations' cash flow projections. In order to meet the treasury needs arising due to COVID-19, and to ensure the Company's liquidity situation, the Company's Directors have implemented various measures which are detailed in Note 2.3 of these Notes.

10.2 Information on average payment period to suppliers

During 2020, the average payment period to suppliers has been 60.64 days (51.97 days in 2019), the ratio of paid transactions has been 35.57 days (39.46 days in 2019) and the ratio of transactions pending payment has been 123.89 days (157.39 days in 2019). The total payments made amount to 2,960,789 euros (4,313,008 euros in 2019) and pending payments amount to 357,183 euros (511,854 euros in 2019).

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11. TAX

At December 31 the breakdown of tax assets and liabilities is as follows:

Euros	2020	2019
Deferred tax assets	156,456	16,306
Other receivables from Public Administrations	324,496	3,911
	480,952	20,217
Deferred tax liabilities	1,597,174	1,688,558
Current tax liabilities	-	237,654
Other payables to Public Administrations (Social Security)	528,817	338,534
	2,125,991	2,264,746

As of January 1, 2014, Palma Pictures T.M.P.C., S.L together with its subsidiary, Pathfinder Media, S.L.U., was subject to the special consolidated tax regime. Since said subsidiary has been liquidated in 2017, the Company is now declaring tax individually again.

Profit, which is determined according to tax legislation, is subject to a 25% tax rate on the consolidated tax base. Certain deductions can be performed on the resulting quota.

Under prevailing Spanish tax law, tax returns may not be considered final until they have either been inspected by tax authorities or until the inspection period has expired. The Company is open to inspection for the applicable taxes for the last four years.

An inspection of Corporate Tax and Value Added Tax for the years 2015 and 2016 began in the month of March 2019. In 2020, a consent order has been obtained and, as a result, 87,723 euros has been paid for these inspections that, since they arose in previous years, have been recognised with a charge to reserves.

The Company Directors consider that, in the case of an inspection, no significant tax contingencies could arise from possible differing interpretations of the tax regulations applicable to the transactions undertaken by the Company.

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11.1 Corporate Income Tax calculation

The reconciliation of net income and expenses for the year with tax results for the years 2020 and 2019 is as follows:

Euros	Income Statement			Income and expenses directly charged to equity			
	Increases	Decreases	Total	Increases	Decreases	Total	TOTAL
2020							
Income and expenses balance before taxes			(962,956)				(962,956)
Permanent differences:							
Non-deductible expenses	36,320	-	36,320	-	-	-	36,320
Donations	500	-	500	-	-	-	500
Temporary differences:							
Arising in previous years							
Amortisation assets' capital gains	343,929	-	343,929	-	-	-	343,929
Amortisation of assets (2001-2007)	11,318	-	11,318	-	-	-	11,318
Reversal free amort. employment maintenance	10,288	-	10,288	-	-	-	10,288
TD Reversal amortisation limitation 2013 and 2014 (ART. 7 LEY 16/2012)	-	(13,045)	(13,045)	-	-	-	(13,045)
Taxable income (prior)			(573,646)				(573,646)

Euros	Income Statement			Income and expenses directly charged to equity			
	Increases	Decreases	Total	Increases	Decreases	Total	Increases
2019							
Income and expenses balance before taxes			1,269,437				1,269,437
Permanent differences:							
Non-deductible expenses	2,176	-	2,176	-	-	-	2,176
Donations	3,450	-	3,450	-	-	-	3,450
Temporary differences:							
Arising in previous years							
Amortisation assets' capital gains	343,929	-	343,929	-	-	-	343,929
Amortisation of assets (2001-2007)	11,317	-	11,317	-	-	-	11,317
Reversal free amort. employment maintenance	13,288	-	13,288	-	-	-	13,288
TD Reversal amortisation limitation 2013 and 2014 (ART. 7 LEY 16/2012)	-	(13,045)	(13,045)	-	-	-	(13,045)
Taxable income (prior)			1,630,552				1,630,552

Amortisation of assets' cash surpluses

In 2020 and 2019, this account relates to amortisation of surpluses related to the various assets which, by their nature, are not tax-deductible and are detailed in Notes 5 and 6.

Amortisation/Depreciation

In 2020 and 2019, these balances relate to the reversal of the accelerated depreciation of property, plant and equipment for tax purposes.

The reconciliation between the expense/(income) for the Corporate Income Tax and the result of multiplying the tax rates applicable to the total recognised income and expenses is as follows:

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Euros	2020			2019		
	Income statement	Equity	Total 2020	Income statement	Equity	Total 2019
Income and expenses for the year before tax	(962,956)	-	(962,956)	1,269,437	-	1,269,437
Notional tax charge (tax rate 25%)	(240,739)	-	(240,739)	317,359	-	317,359
Non-deductible expenses	3,261	-	3,261	1,406	-	1,406
Quota deductions	14,937	-	14,937	(652)	-	
Expense/(income) tax effect	222,541	-	222,541	318,113	-	318,113

The breakdown of the Corporate Income Tax expense/(income) is as follows:

Euros	Income statement	Equity	Total 2020	Income statement	Equity	Total 2019
Current taxes	(143,411)	-	(143,411)	406,985	-	406,985
Deferred taxes	(79,130)	-	(79,130)	(88,872)	-	(88,872)
Total			(222,541)	318,113	-	318,113

The breakdown of payable or receivable Corporate Tax is as follows:

(Euros)	2020	2019
Current tax	(143,411)	406,986
Withholdings	-	(24)
Prepayments	-	(169,308)
Total Income Tax payable/(receivable)	(143,411)	237,654

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Notes to the Annual Accounts for the year ended December 31, 2020
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11.2 Deferred tax assets and liabilities

The breakdown and movement of the various items which make up deferred tax assets and liabilities are as follows:

Euros				
2020	Opening balance	Variations reflected in		Closing balance
		Income statement	Equity	
Deferred tax assets				
Tax losses	-	143,411	-	143,411
Limitation amortisation 2019 and 2020	16,306	(3,261)	-	13,045
	16,306	140,150		156,456
Deferred tax liabilities				
Depreciation property, plant & equipment	35,744	(2,572)	-	33,172
Cash gains on assets	1,632,241	(85,982)	-	1,546,259
Non-refundable grants	20,573	(2,829)	-	17,744
	1,688,558	(91,384)	-	1,597,174
2019	Opening balance	Variations reflected in		Closing balance
		Income statement	Equity	
Deferred tax assets				
Limitation amortisation 2018 and 2019	19,567	(3,261)	-	16,306
	19,567	(3,261)	-	16,306
Deferred tax liabilities				
Depreciation property, plant & equipment	39,066	(3,322)	-	35,744
Cash gains on assets	1,718,223	(85,982)	-	1,632,241
Non-refundable grants	23,402	(2,829)	-	20,573
	1,780,691	(92,133)	-	1,688,558

At December 31, 2020, the Company has tax losses pending compensation amounting to 143,411 euros (0 euros in 2019).

12. INCOME AND EXPENSES

12.1 Income

The distribution of the Company's turnover corresponding to normal activities, by category, is as follows:

Euros	2020	2019
Income from rendering of services	7,152,628	18,246,389
Income from Photo shoots	156,739	940,793
Total	7,309,367	19,187,182

In 2020, as a result of the effects of the COVID-19 pandemic, the lockdowns and travel restrictions, net revenue has significantly decreased in all the Company's activities and in all the markets in which it operates.

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12.2 Supplies

The breakdown of consumption of goods in the Income statement is as follows:

Euros	2020	2019
Purchases and supplies	(393)	(590)
Total	(393)	(590)

12.3 Personnel Expenses

The breakdown of personnel expenses stated in the Income Statement is as follows:

Euros	2020	2019
Wages, salaries and similar	2,677,904	5,409,397
Social Security	732,048	1,216,470
Other welfare expenses	155,430	33,541
Total	3,565,382	6,659,407

At closing 2019, the short-term provision recognised amounted to 61 thousand euros, following the payment to one of the employees related to their long-term commitment. At closing 2020, the short-term provision recognised amounted to 27 thousand euros, following the payment to one of the employees related to their long-term commitment.

As a result of the effects of the COVID-19 pandemic described in Note 2.3, on April 2, 2020, a Temporary Redundancy Plan (ERTE) was formalised, affecting 95% of the workforce in Spain and, at closing said Plan remains in force.

13. INFORMATION ON ENVIRONMENTAL ISSUES

The Company's Directors consider that potential contingencies that may arise with respect to environmental issues are sufficiently covered by the liability insurance policies subscribed.

No expenses for this concept have been incurred during in either 2020 or 2019.

PALMA PICTURES T.M.P.C., S.L.
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14. POST-BALANCE SHEET EVENTS

In January 2021, the credit line held with Caixabank for 700 thousand euros has been renewed, with the new maturity date of January 31, 2024.

In March 2021, a consent order was signed for 3 thousand euros for the 2017 Corporate Tax inspection.

There have been no other post-balance sheet events which significantly affect these annual accounts.

PALMA PICTURES T.M.P.C., S.L.
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15. TRANSACTIONS WITH RELATED PARTIES

Related parties in 2020 and 2019 and the nature of their relationship are as follows:

	Nature of relationship
Zallaz, S.A.	Direct Parent Company
Other partners	Shareholders
NW Mallorca 2017, S.L.U.	Group company
Living the dream, S.L.U.	Group company
Finca Producciones SPA, S.L.	Group company
Ten Cents Films, S.L.U.	Group company
White Lines Films, S.L.	Group company
Off The Rails Films, S.L.	Group company
Nosotros Productions, S.L.	Group company
Last Letter Films, S.L.U.	Group company
Chica Morena Productions, S.L.	Group company
Picada Productions, S.L.	Group company
Batalla Productions, S.L.	Group company
Directors	Board members
Top management	Management

15.1 Related parties

Balances and transactions with related companies are as follows:

2020	Accounts receivable	Accounts payable	Sales and services rendered	Purchases and services received
NW Mallorca 2017, S.L.U.	17	-	-	-
Living the dream, S.L.U.	-	-	-	-
Finca Producciones SPA, S.L.	37,087	-	205,753	-
Ten Cents Films S.L.U.	26	-	59,998	-
White Lines Films, S.L.	-	-	83,596	-
Off The Rails Films, S.L.	-	-	-	-
Nosotros Productions, S.L.	-	-	13,310	-
Last Letter Films, S.L.U.	1,486	-	15,404	-
Chica Morena Productions, S.L.	-	-	95,927	-

2019	Accounts receivable	Accounts payable	Sales and services rendered	Purchases and services received
NW Mallorca 2017, S.L.U.	17	-	-	-
Living the dream, S.L.U.	-	-	-	-
Finca Producciones SPA, S.L.	-	-	546,417	-
Ten Cents Films S.L.U.	609	-	279,279	-
White Lines Films, S.L.	38	-	535,483	-
Off The Rails Films, S.L.	787	-	133,515	-
Nosotros Productions, S.L.	123,084	-	182,208	-
Last Letter Films, S.L.U.	174,738	-	330,763	-
Chica Morena Productions, S.L.	622	-	340,960	-

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2020
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15.2 Directors and top management

No remuneration was accrued by Board Members who do not hold executive positions in 2020 or 2019.

Remuneration accrued in the year by top management, including a Board Member, has amounted to 338,708 euros (718,697 euros in 2019).

In accordance with Article 229 of the Spanish Corporation Law, the Directors have declared that they hold no positions which would imply a conflict of interest with the Company.

At December 31, 2020 and 2019, the Company had no pension plans or life insurance policies for previous or present Board members. Moreover, at December 31, 2020 and 2019, no advances or credits were granted to top management or to Board members and no obligations were assumed on their behalf as security.

During 2020, civil liability insurance premiums have been paid to the directors for potential responsibilities which may arise during the performance of their work for an amount of 2,184 euros (2,123 euros in 2019).

16. OTHER DISCLOSURES

a) Average number of employees:

The average number of employees in 2020 by category is shown below. At December 31, 2020 and 2019, there are no significant changes with regard to the following distribution by categories:

Categories	2020			2019		
	Male	Female	Total	Male	Female	Total
Senior Managers	6.54	2.44	8.97	7.32	2.20	9.52
Heads of Department	10.19	5.76	15.96	10.86	5.60	16.45
Clerks	7.70	3.18	10.88	11.42	5.16	16.59
Auxiliary staff	9.94	15.77	25.70	19.96	22.02	41.98
Total	34.36	27.14	61.51	49.56	34.98	84.54

The average number of employees in 2020, included in the table above, that are assigned to the Temporary Redundancy Plan, has been weighted for the period of reduced working hours.

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The Company has one employee with a registered disability of over 33%. In 2019, the Company had one employee with a registered disability of over 33%.

b) Audit fees

The audit fees for these 2020 Annual Accounts amount to 13,230 euros (14,700 euros in 2019). Moreover, the fees paid for other services rendered by the Company auditors and other companies which are part of the Firm, amount to 26,295 euros (32,175 euros in 2019).

17. GUARANTEES WITH THIRD PARTIES

The Company has no guarantees with third parties which could have a significant negative impact on the Company.

18. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These annual accounts are presented on the basis of accounting principles generally accepted in Spain. Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in other countries.

PALMA PICTURES T.M.P.C., S.L.
Management report for the year ended December 31, 2020

ISSUANCE OF ANNUAL ACCOUNTS

1.- Business trend and Company's situation, together with a description of the main risks and uncertainties affecting the Company

2020 has been significantly affected by the COVID-19 pandemic and the travel restrictions imposed by various regions in order to protect their territories.

Taking into account that 100% of our activity consists of providing services to foreign companies that travel to Spain, it is clear that the impact on our activities has been significant.

On a positive note, many of our clients have remained loyal and, despite the complications, have continued to trust us, sending smaller teams to shoot their projects with us.

The proof of this is that, although our revenue has decreased, it has done so by a smaller percentage than the circumstances indicated.

The advertising activity has decreased, mainly due to the restrictions imposed in our main foreign market, the United Kingdom. The number of shoots has decreased and those obtained have been sporadic. Nonetheless, our new clients have positively accepted the alternative of remote shoots and this resulted in peaks of work in the months of July and November. The Photography Department has not had much activity in the year and we hope to revive it in 2021.

The year ended has been very focussed on cost management and a Temporary Redundancy Plan (ERTE) has been implemented and is still in progress. There have been continuous reviews of the Company's recurring expenses and the grace periods of loans have been renegotiated.

The shoots that have taken place have obtained increased profitability, due to the improved use of our internal resources, which has been achieved by the great effort of our team, that has been a fundamental pillar in these difficult times.

2.- Post-balance sheet events

The Company is still taking the necessary measures to mitigate the impact of the COVID crisis, e.g. the extension of the ERTE until the end of May, or the renegotiation of various loans and credit lines.

No further events have occurred after the year-end closing date in addition to those detailed in Note 14 of the accompanying annual accounts.

PALMA PICTURES T.M.P.C., S.L.
Management report for the year ended December 31, 2020

3.- Company's foreseeable evolution

The Company's evolution this year will depend on the date when travel is allowed again. Nonetheless, we are still receiving enquiries from various clients regarding our capability to restart shoots as soon as possible. We have already confirmed the projects for five television programmes and are in talks for the filming of the next season of a well-known series and a relevant part of two films.

4.- Research and development activities carried out by the Company

Apart from the activities already implemented in previous years no new activities have been undertaken.

5.- Acquisition of own shares

The Company has not acquired any own shares during the year.

6.- Environmental information

We have, once again, passed the audit of our Environmental Management System, according to standard ISO 14001:2004 and European Regulation 1221/2009 on the Eco-Management and Audit Scheme (EMAS). This is evidence of our continued commitment to an environmentally friendly management model.