

**Audit Report on Financial Statements
issued by an Independent Auditor
PALMA PICTURES THE MEDITERRANEAN
PRODUCTION CENTER, S.L.
Financial Statements and Management Report
for the year ended December 31, 2017**

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

AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

Opinion

We have audited the financial statements of PALMA PICTURES THE MEDITERRANEAN PRODUCTION CENTER, S.L. (the Company), which comprise the balance sheet as at December 31, 2017, 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 financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2017 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 financial statements) 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 financial statements* 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 financial statements 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 financial statements of the current period. These risks were addressed in the context of our audit of the financial statements 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

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.

Our audit procedures have mainly consisted in: i) the understanding of the Company's revenue recognition process; ii) the performance of substantive analytical procedures consisting of the review of the income evolution, comparing the income with that recognised in the prior year; iii) the performance 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; iv) the performance of analytical procedures on the review of journal entries related to revenue; and v) the review of the balances pending collection through client confirmations and/or alternative procedures based on the available supporting documentation.

Other information: management report

Other information refers exclusively to the 2017 management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the financial statements.

Our audit opinion on the financial statements 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 financial statements based on the knowledge of the entity we obtained while auditing the financial statements, and not including any information not obtained as evidence during the course of the audit. In addition, our responsibility is 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 2017 financial statements and their content and presentation are in conformity with applicable regulations.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation of the accompanying financial statements 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 financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, 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 financial statements 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 financial statements, including the disclosures, and whether the financial statements 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 financial statements 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 Viales Bennásar

PALMA PICTURES
THE MEDITERRANEAN PRODUCTION CENTER, S.L.

Annual Accounts and Management Report
at December 31, 2017

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, 2017 and 2016
(In euros rounded to the nearest unit)

BALANCE SHEET	Notes	2017	2016
A) NON-CURRENT ASSETS		9,796,094	10,147,035
I. Intangible assets	5	1,723,668	1,918,453
1. Patents, licenses, trademarks and similar		1,721,653	1,912,639
2. Software		2,015	5,814
II. Property, plant and equipment	6	8,042,805	8,195,318
1. Land and buildings		7,437,326	7,607,539
2. Plant and other PP&E items		605,479	587,779
III. Long-term investments in Group companies and associates	7	6,000	-
1. Equity instruments		6,000	-
IV. Long-term financial investments		793	1,043
1. Equity instruments	7	-	250
3. Other financial assets		793	793
V. Deferred tax assets	11	22,828	32,220
B) CURRENT ASSETS		2,487,795	2,527,347
I. Trade and other receivables		888,323	1,412,777
1. Clients for sales and services rendered	7	444,750	817,892
2. Group companies		90,750	91,588
5. Other receivables from Public Administrations	11	352,823	503,297
II. Short-term financial investments	7	10,776	10,490
1. Equity instruments		10,776	10,490
III. Cash and cash equivalents	8	1,588,697	1,104,080
1. Cash		1,588,697	1,104,080
TOTAL ASSETS (A+B)		12,283,889	12,674,382

PALMA PICTURES T.M.P.C., S.L.
Balance sheet at December 31, 2017 and 2016
(In euros rounded to the nearest unit)

BALANCE	Notes	2017	2016
A) EQUITY		4,279,803	3,863,511
A.1) Equity		4,200,193	3,787,906
I. Share capital	9	3,400,000	3,400,000
1. Issued capital		3,400,000	3,400,000
II. Reserves	9	454,094	454,094
1. Legal and statutory		148,441	148,441
2. Other reserves		305,653	305,653
III. Results for previous years		(66,189)	(8,793)
IV. Result for the year	3	412,288	(57,395)
A.2) Grants, donations and legacies	9	79,610	75,605
B) NON-CURRENT LIABILITIES		5,404,043	5,960,261
I. Long-term liabilities	10	3,528,694	3,993,315
1. Bank borrowings		3,528,694	3,993,315
II. Deferred tax liabilities	11	1,875,349	1,966,946
C) CURRENT LIABILITIES		2,600,043	2,850,610
I. Short-term provisions	12.3	108,000	-
II. Short-term borrowings	10	498,311	418,614
1. Bank borrowings		498,194	418,614
2. Other financial liabilities		117	-
III. Borrowings from Group companies and associates	15.1	-	85,122
IV. Trade creditors and other accounts payable	10	1,993,732	2,346,874
1. Suppliers		1,485,031	1,914,229
2. Personnel (remunerations pending payment)		72,924	176,512
3. Current tax liabilities	11	266,637	38,525
4. Other payables to Public Administrations	11	47,554	78,857
5. Prepayments from clients	11	121,586	138,751
TOTAL EQUITY AND LIABILITIES (A+B+C)		12,283,889	12,674,382

PALMA PICTURES T.M.P.C., S.L.
Income statement at December 31, 2017 and 2016
(In euros rounded to the nearest unit)

INCOME STATEMENT	Notes	2017	2016
A) CONTINUING OPERATIONS			
1. Revenue	12.1	17,256,065	15,891,161
a) Services rendered		17,256,065	15,891,161
2. Supplies	12.2	(1,541)	20,942
a) Consumption of goods for resale		(1,541)	20,942
3. Other operating income		77,709	64,324
4. Personnel expenses	12.3	(3,716,544)	(2,243,294)
a) Wages, salaries, et al		(2,902,268)	(1,787,655)
b) Social security costs		(706,276)	(455,639)
c) Provisions		(108,000)	-
5. Other operating expenses		(12,436,652)	(13,206,906)
a) External services		(12,345,633)	(13,091,712)
b) Taxes		(85,998)	(112,004)
c) Losses, impairment and variation of provisions for commercial transactions		(5,021)	(3,190)
6. Depreciation and amortisation		(504,173)	(549,643)
7. Grants released to non-financial assets and other grants		8,243	7,156
8. Impairment losses and gains on disposal of assets (loss)		1,413	81,840
9. Other results		(6,303)	(1,489)
A.1) OPERATING PROFIT (1+2+3+4+5+6+7+8+9)		678,217	64,091
10. Finance income		156	915
a) From marketable securities and other financial instruments		156	915
a 1) In Group companies and associates		-	97
a 2) In third parties		156	818
11. Finance costs		(86,904)	(122,513)
b) Third-party borrowings		(86,904)	(122,513)
12. Translation differences		2,090	-
13. Impairment and result for disposal of financial instruments		-	(14,614)
a) Impairment and losses	7.1	-	(14,614)
A.2) FINANCE RESULT (10+11+12)		(84,657)	(136,212)
A.3) RESULT BEFORE TAX (A.1+A.2)	7.2	593,560	(72,121)
13. Income tax		(181,272)	14,726
A.4) RESULT FOR THE YEAR (A.3+13)	3	412,288	(57,395)

PALMA PICTURES T.M.P.C., S.L.
Statement of changes in equity corresponding to the year ending
December 31, 2017 and 2016 (In euros rounded to the nearest unit)

A) Statement of changes in equity for the year ended December 31, 2017 and 2016

	Notes	2017	2016
A) Result of the Profit and Loss account		412,288	(57,395)
Income and expenses carried directly to equity			
I. Grants, donations and legacies	9.4	13,582	-
II. Tax effect arising from change of tax rate	8.4	(3,395)	-
B) Total income and expenses carried directly to equity		10,187	(57,395)
Transfers to profit and loss account			-
III. Grants, donations and legacies	9.4	(8,243)	(7,156)
IV. Tax effect	8.4	2,061	1,789
C) Total transfers to profit and loss account		(6,182)	(5,367)
TOTAL RECOGNISED INCOME AND EXPENSES (A+B+C)		416,293	(62,762)

PALMA PICTURES T.M.P.C., S.L.
Statement of changes in equity corresponding to the year ending
December 31, 2017 and 2016 (In euros rounded to the nearest unit)

B) Statement of total changes in equity for the year ended December 31, 2017 and 2016

	Subscribed capital (Note 9)	Legal reserve (Note 9)	Available reserves (Note 9)	Results from previous years	Results for the year (Note 3)	Grants received (Note 9)	TOTAL
2016							
BALANCE AT JANUARY 1, 2016	3,400,000	148,441	305,653	-	(8,793)	80,973	3,926,273
Total recognised income and expenses	-	-	-	-	(57,395)	(5,367)	(62,762)
Other equity variations	-	-	-	(8,793)	8,793	-	-
BALANCE AT DECEMBER 31, 2016	3,400,000	148,441	305,653	(8,793)	(57,395)	75,605	3,863,511

	Subscribed capital (Note 9)	Legal reserve (Note 9)	Available reserves (Note 9)	Results from previous years	Results for the year (Note 3)	Grants received (Note 9)	TOTAL
2017							
BALANCE AT JANUARY 1, 2017	3,400,000	148,441	305,653	(8,793)	(57,395)	75,605	3,863,511
Total recognised income and expenses	-	-	-	-	412,288	4,005	416,293
Other equity variations	-	-	-	(57,395)	57,395	-	-
BALANCE AT DECEMBER 31, 2017	3,400,000	148,441	305,653	(66,189)	412,288	79,610	4,279,803

PALMA PICTURES T.M.P.C., S.L.
Cash flow statement for the years ended
December 31, 2017 and 2016 (In euros rounded to the nearest unit)

	Notes	2017	2016
CASH FLOWS OF OPERATING ACTIVITIES			
Result for the year before tax		593,560	(72,121)
Adjustments to results		689,265	598,985
Amortisation/Depreciation (+)	5, 6	504,173	549,643
Impairment adjustments (+/-)		-	14,614
Grants (-)		(8,243)	(6,870)
Results for withdrawal and disposal of assets (+/-)		(1,413)	(80,000)
Finance income (-)		(156)	(915)
Finance expenses (+)		86,904	122,513
Provisions for remunerations	12.3	108,000	-
Changes in current capital		(128,930)	505,946
(Increase)/Decrease in Debtors and other accounts receivable		456,144	(300,171)
Increase/(Decrease) in Other current assets		(286)	3,659
Increase/(Decrease) in Creditors and other accounts payable		(584,789)	802,458
Other cash flows from operating activities		(155,273)	(186,088)
Interest payments (-)		(86,904)	(122,513)
Proceeds from interest (+)		156	915
Collections (payments) for income tax (+/-)	11	(68,525)	(64,490)
Cash flows from operating activities		998,622	846,722
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for investments (-)		(130,379)	(98,325)
Property, plant and equipment (less grants received)	6, 9.4	(130,379)	(98,325)
Investments in Group companies	7	(6,000)	-
Proceeds from disinvestments (+)		1,413	80,000
Property, plant and equipment		1,413	80,000
Cash flows from investing activities		(119,311)	(18,325)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds and payments from financial liability instruments	10	(385,039)	(318,385)
Issue of bank borrowings		34,346	1,806,792
Return and amortisation of		(419,385)	(2,125,177)
Bank borrowings (-)		(419,385)	(373,370)
Other borrowings (-)		-	(1,751,807)
Cash flows from financing activities		(385,039)	(318,385)
NET INCREASE/DECREASE OF CASH OR CASH EQUIVALENTS		484,617	510,012
Cash and cash equivalents at January 1	8	1,104,080	594,068
Cash and cash equivalents at December 31	8	1,588,697	1,104,080

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2017
(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.

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2017
(In euros rounded to the nearest unit)

2.2 Comparison of information

In accordance with mercantile legislation, for comparative purposes, the 2017 balance sheet, profit and loss account, statement of changes in equity and cash flow statement, include, in addition to the 2017 figures, those of 2016. The Notes to the Accounts also include quantitative information from 2016, except in those cases where an accounting standard specifically states that it is unnecessary.

2.3 Going concern principle

At December 31, 2017 the Company's balance sheet presents negative working capital of 112,248 euros (323.263 euros deficit in 2016). Nonetheless, the Company Directors consider that the cash flows generated by the business are sufficient to assume the current liabilities. Moreover, if necessary, 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.

2.4 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, 2017
(In euros rounded to the nearest unit)

Impairment of non-current assets

The valuation of non-current assets, different from financial current 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	2017	2016
Basis of distribution		
Income statement balance	412,288	(57,395)
	412,288	(57,395)
Distribution		
To reserves	346,099	-
To losses from previous years	66,189	(57,395)
	412,288	(57,395)

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2017
(In euros rounded to the nearest unit)

4. VALUATION CRITERIA

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

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 on 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.

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2017
(In euros rounded to the nearest unit)

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.

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 depreciation
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 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.

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2017
(In euros rounded to the nearest unit)

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.

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.

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2017
(In euros rounded to the nearest unit)

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.

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.

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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. In the case of non-monetary contributions to a Group company for the purpose of a business, however, the investment is measured at the carrying amount of the assets constituting the business. The initial value includes preferential subscription and similar rights.

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.

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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.

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.

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4.9 Provisions for risks and expenses

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 adjustments 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.

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..

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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.

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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.

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.

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

2017	Balance at January 1,	Additions	Transfers	Balance at December 31
Cost				
Software	180,293	12,914	-	193,207
Brands	3,818,916	-	-	3,818,916
	3,999,209	12,914	-	4,012,123
Accumulated amortisation				
Software	174,479	16,712	-	191,191
Brands	1,906,277	190,987	-	2,097,264
	2,080,756	207,699		2,288,455
Carrying value	1,918,453			1,723,668

2016	Balance at January 1,	Additions	Transfers	Balance at December 31
Cost				
Software	180,293	-	-	180,293
Brands	3,818,916	-	-	3,818,916
	3,999,209	-	-	3,999,209
Accumulated amortisation				
Software	155,262	19,216	-	174,479
Brands	1,715,290	190,987	-	1,906,277
	1,870,552	210,203	-	2,080,756
Carrying value	2,128,657			1,918,453

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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, as the land was recorded as greater value of the brand.

Fully amortised intangible assets amount to 220,910 euros (154,817 euros in 2016).

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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, 2017	Additions and provisions	Disposals	Transfers	Balance at December 31, 2017
2017					
Cost					
Land	3,462,307	-	-	-	3,462,307
Buildings	7,490,103	-	-	-	7,490,103
Technical plant and machinery	1,971,328	105,371	-	-	2,076,699
Other PP&E items	960,709	11,737	-	-	972,446
Vehicles	689,634	20,661	(9,655)	-	700,640
Data processing equipment	257,197	5,210	-	-	262,407
Other tangibles	282,234	982	-	-	283,216
	15,113,513	143,961	(9,655)	-	15,247,818
Accumulated amortisation					
Buildings	3,344,871	170,214	-	-	3,515,085
Technical plant and machinery	1,783,753	44,543	-	-	1,828,296
Other PP&E items	787,113	42,848	-	-	829,961
Vehicles	596,619	20,165	(9,655)	-	607,129
Data processing equipment	211,020	10,689	-	-	221,709
Other tangibles	194,817	8,015	-	-	202,832
	6,918,195	296,474	(9,655)	-	7,205,011
Carrying value	8,195,318				8,042,805

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Euros	Balance at January 1, 2016	Additions and provisions	Disposals	Transfers	Balance at December 31, 2016
2016					
Cost					
Land	3,462,307	-	-	-	3,462,307
Buildings	7,490,103	-	-	-	7,490,103
Technical plant and machinery	2,035,906	8,398	(72,976)	-	1,971,328
Other PP&E items	957,806	2,903	-	-	960,709
Vehicles	630,178	70,764	(11,308)	-	689,634
Data processing equipment	241,577	15,620	-	-	257,197
Other tangibles	281,594	640	-	-	282,234
	15,099,471	98,325	(84,284)	-	15,113,513
Accumulated depreciation					
Buildings	3,138,638	206,233	-	-	3,344,871
Technical plant and machinery	1,808,939	47,790	(72,976)	-	1,783,753
Other PP&E items	734,438	52,674	-	-	787,113
Vehicles	590,011	17,915	(11,308)	-	596,619
Data processing equipment	200,372	10,648	-	-	211,020
Other tangibles	190,639	4,178	-	-	194,817
	6,663,038	339,440	(84,284)	-	6,918,195
Carrying value	8,436,433	(241,115)	-		8,195,318

At December 31, 2017, the land and building balances include capital gains amounting to 2,075,813 and 3,603,336 euros, respectively (2,075,813 and 3,603,336 euros in 2016), 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, 2017, totally depreciated property, plant and equipment amount to 4,380,673 euros (3,960,482 euros in 2016).

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 2017 and 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 this caption at December 31 is as follows:

Euros	Equity instruments		Credits and others		Total	
	2017	2016	2017	2016	2017	2016
Non-current financial assets						
Investments in Group companies	6,000	3,006	-	400,000	6,000	403,006
Impairment provision	-	(3,006)	-	(400,000)	-	(403,006)
Long-term financial investments	-	250	793	793	793	1,043
	6,000	250	793	793	6,793	1,043
Current financial assets						
Trade and other receivables (*)	-	-	535,500	909,480	535,500	909,480
Short-term financial investments	10,776	10,490	-	-	10,776	10,490
	10,776	10,490	535,500	909,480	546,276	919,970
TOTAL	16,776	10,740	536,293	910,273	553,069	921,013

** Excluding balances with Public Administrations

7.1 Investments in Group companies

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

Euros	2017	2016
Pathfinder Media, S.L.U. (liquidated in 2017)	-	3,006
NW Mallorca 2017, S.L.U.	3,000	-
Living The Dream Company, S.L.U.	3,000	-
Impairment provision	-	(3,006)
	6,000	-

The main figures of the Group companies are as follows:

Euros	%	Capital	Reserves	Result
NW Mallorca 2017, S.L.U.	100%	3,000	-	-
Living The Dream Company, S.L.U.	100%	3,000	-	-
Pathfinder Media, S.L.U. (liquidated)	100%	-	-	-

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The Company constituted the subsidiary Pathfinder Media, S.L. (Sole Shareholder Company) at the end of 2009, with the same registered address and a 100% participation in its share capital. Said company which began its activity in 2010 has been liquidated in 2017 without having a significant effect on the Company's annual accounts, since the cost of the participation and all the accounts receivable have already been provided for.

The Company NW MALLORCA 2017, S.L.U. has undertaken a television project in 2017 and is expected to be liquidated during 2018.

LIVING THE DREAM COMPANY, S.L.U. was constituted in 2017 under another name (PAN Y VINO PRODUCTIONS, S.L.U.), which was changed in February 2018. Said company is expected to undertake a project in 2018.

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

Loans to Group and related companies

In the previous year the "Long-term credits with Group companies and associates" heading was made up of two participative loans which amounted to a total of 400,000 euros, granted to the participated company Pathfinder Media, S.L.U., which were completely provided for. On June 21, 2017, an agreement was made to contribute 400,000 euros to compensate the subsidiary's losses by cancelling said participative loans.

Trade debt

The breakdown at December 31 is as follows:

	2017	2016
Clients for sales and services rendered	444,750	817,892
Clients, Group companies and associates	90,750	91,588
Personnel	-	-
Total	535,500	909,480

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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)	2017	2016
Opening balance	-	-
Net charges	-	3,190
Write-offs	-	(3,190)
Final balance	-	-

8. CASH AND CASH EQUIVALENTS

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

Euros	2017	2016
Cash	21,110	22,990
Current accounts	1,567,586	1,081,090
Total	1,588,697	1,104,080

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, 2017, 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% (43.37% in 2016).

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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.

9.4 Grants

The breakdown of this account is as follows:

2017 (euros)	Balance at January 1	Additions	Transfers to Profit and Loss	Balance at December 31
Cost:				
Grants for purchase of assets	68,134	-	(3,423)	64,711
Grants for purchase of assets 2010	2,634	-	(852)	1,782
Grants for purchase of assets 2011	4,838	-	(1,092)	3,746
Grants for purchase of assets 2017	-	10,187	(815)	9,372
Total	75,605	10,187	(6,182)	79,610

2016 (euros)	Balance at January 1	Transfers to Profit and Loss	Balance at December 31
Cost:			
Grants for purchase of assets	71,557	(3,423)	68,134
Grants for purchase of assets 2010	3,486	(852)	2,634
Grants for purchase of assets 2011	5,930	(1,092)	4,838
Total	80,972	(5,367)	75,605

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.

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10. FINANCIAL LIABILITIES

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

Euros	Bank borrowings		Others		Total	
	2017	2016	2017	2016	2017	2016
Long-term financial liabilities:						
Debits and accounts payable	3,528,694	3,993,315	-	-	3,528,694	3,993,315
	3,528,694	3,993,315	-	-	3,528,694	3,993,315
Current financial liabilities:						
Debits and accounts payable	498,194	418,614	117	-	498,311	418,614
Trade creditors and other account payables	-	-	1,679,541	2,229,492	1,679,541	2,229,492
	498,194	418,614	1,679,658	2,229,492	2,177,852	2,648,106
TOTAL	4,026,888	4,411,929	1,679,658	2,229,492	5,706,546	6,641,421

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

Euros	2017	2016
Non-current liabilities:		
Bank borrowings	3,528,694	3,993,315
	3,528,694	3,993,315
Current liabilities:		
Bank borrowings	498,194	418,614
Suppliers and creditors	1,485,031	1,914,229
Debts with personnel	72,924	176,512
Prepayments from clients	121,586	138,751
	2,177,735	2,648,106

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10.1 Bank borrowings

The breakdown of bank borrowings is as follows:

	Initial amount	Balance at 31.12.17	Balance at 31.12.16	Formalisation date	Maturity
Mortgage loan BMN - Sa Nostra	1,438,524	1,091,142	1,180,194	30,12,2014	31,12,2029
Mortgage loan B. March	1,470,235	1,128,204	1,220,110	30,12,2014	01,01,2030
Loan Sa Nostra	350,000	-	50,275	18,07,2011	02,08,2018
Loan La Caixa	1,000,000	589,744	743,590	18,03,2016	30,09,2022
Loan Bankinter	737,200	646,878	737,200	10,07,2016	10,09,2022
Loan Banco Sabadell		29,023	40,115		
Loan Targo Bank	29,477	15,995	21,831	24,09,2016	24,08,2021
ICO loan La Caixa	34,346	27,708	-	14,12,2017	13,12,2022
Total long-term borrowings		3,528,694	3,993,315		
Mortgage loans - short term	-	180,185	174,962		
Other bank loans -short term	-	318,009	243,652		
Total short-term borrowings					
Total bank borrowings		498,194	418,614		

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

During 2016, as well as the loan from La Caixa, a swap contract was signed fixing the interest rate at 2% during the loan's term. Since the fair value of the swap is insignificant (approximately 7 thousand euros, 10 thousand in 2016), for simplicity, the accounting hedges have not been recognised and the expense has been recognised in the same way as the swap settlements.

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

At 31.12.17	2018 (Short-term)	2019	2020	2021	2022	Remainder	Total long-term
Bank loans	498,194	543,295	548,980	546,853	422,803	1,466,762	3,528,694
Total							

At 31.12.16	2017 (Short-term)	2018	2019	2020	2021	Remainder	Total long-term
Bank loans	418,614	399,481	443,511	539,336	544,885	2,066,102	3,993,315
Total	418,614	399,481	443,511	539,336	544,885	2,066,102	3,993,315

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. With the exception of the abovementioned swap, at December 31, 2017 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.

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10.2 Information on average payment period to suppliers

During 2017, the average payment period to suppliers has been 31.20 days (24.02 days in 2016), the ratio of paid transactions has been 29.04 days (22.77 days in 2016) and the ratio of transactions pending payment has been 56.15 days (24.60 days in 2016). The total payments made amount 12,483,182 euros (12,595,111 euros in 2016) and pending payments amount to 1,080,652 euros (1,713,205 euros in 2016).

11. TAX

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

Euros	2017	2016
Deferred tax assets	22,828	32,220
Other receivables from Public Administrations	352,823	503,297
Value Added Tax	728,989	767,718
Personal Income Tax	(344,308)	(237,055)
Others	(31,858)	(27,366)
	109,014	535,517
Deferred tax liabilities	1,875,349	1,966,946
Current tax liabilities	266,637	38,525
Other payables to Public Administrations (Social Security)	47,554	78,857
	2,189,540	2,084,328

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. At the end of 2016, the Social Security authorities began a labour inspection and the Company provided all the documentation required. The outcome of this inspection is still unknown. 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.

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2017
(In euros rounded to the nearest unit)

11.1 Corporate Income Tax calculation

The reconciliation of net income and expenses for the year with tax results for the years 2017 and 2016 is as follows:

Euros	Income Statement			Income and expenses directly charged to equity			TOTAL
	Increases	Decreases	Total	Increases	Decreases	Total	
2017							
Income and expenses balance before taxes			593,560				593,560
Permanent differences:							
Non-deductible expenses	4,334	-	4,334	-	-	-	4,334
Provision for variable remuneration	108,000	-	108,000	-	-	-	108,000
Temporary differences:							
Arising in previous years							
Amortisation assets' capital gains	343,929	-	343,929	-	-	-	343,929
Amortisation of assets (2001-2007)	10,300	-	10,300	-	-	-	10,300
Reversal free amort. employment maintenance	24,740	-	24,740	-	-	-	24,740
TD Reversal amortisation limitation 2013 and 2014 (ART. 7 LAW 16/2012))		(13,045)	(13,045)	-	-	-	(13,045)
Taxable income (prior)			1,072,818	-	-	-	1,072,818

(*) The deferred tax asset of this temporary difference is not recognised.

Euros	Income Statement			Income and expenses directly charged to equity			TOTAL
	Increases	Decreases	Total	Increases	Decreases	Total	
2016							
Income and expenses balance before taxes			(72,122)				
Permanent differences:							
Non-deductible expenses	6,642	-	6,642	-	-	-	6,642
Temporary differences:							
Arising in previous years							
Amortisation assets' capital gains	343,929	-	343,929	-	-	-	343,929
Amortisation of assets (2001-2007)	30,203	-	30,203	-	-	-	30,203
Reversal free amort. employment maintenance	25,995	-	25,995	-	-	-	25,995
TD Reversal amortisation limitation 2013 and 2014 (ART. 7 LAW 16/2012))	-	(13,045)	(13,045)	-	-	-	(13,045)
Arising in current year							
Negative equity provision and Pathfinder portfolio	14,594	-	14,594	-	-	-	14,594
Taxable income (prior)			336,196				336,196

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Notes to the Annual Accounts for the year ended December 31, 2017
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Amortisation of assets' cash surpluses

In 2017 and 2016 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 2017 and 2016, 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 applicable tax rates to the total recognised income and expenses is as follows:

Euros	2017			2016		
	Income statement	Equity	Total 2017	Income statement	Equity	Total 2016
Income and expenses for the year before tax	593,560		593,560	(72,122)		(72,122)
Notional tax charge (tax rate 25%)	148,390		148,390	(18,030)		(18,030)
Non-deductible expenses	1,083		1,083	1,661		1,661
Non-deductible provisions	27,000		27,000			
Quota deductions	(1,567)		(1,567)	(652)		(652)
Corporate tax adjustments, previous years and deferred	6,366		6,366	(1,353)		(1,353)
Expense/(income) tax effect	181,272		181,272	(14,726)		(14,726)

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

Euros	Income statement	Equity	Total 2017	Income statement	Equity	Total 2016
Current taxes	266,637	-	266,637	82,095		82,095
Deferred taxes	(85,365)	-	(85,365)	(96,821)		(96,821)
Total	181,272	-	181,272	(14,726)		(14,726)

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

(Euros)	Balance at 31.12.17	Balance at 31.12.16
Current tax	266,637	78,929
Withholdings	(18)	(127)
Prepayments	(29,986)	(40,277)
Total Income Tax payable/(receivable)	236,634	38,525

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				
	Opening balance	Variations reflected in		Closing balance
		Income statement	Equity	
2017				
Deferred tax assets				
Limitation amortisation 2016 and 2017	32,220	(9,392)	-	22,828
	32,220	(9,392)	-	22,828
Deferred tax liabilities				
Depreciation property, plant & equipment	51,271	(6,949)	-	44,322
Cash gains on assets	1,890,187	(85,982)	-	1,804,205
Non-refundable grants	25,488	(2,061)	-	26,822
	1,966,946	(94,992)	-	1,875,349
2016				
Deferred tax assets				
Limitation amortisation 2015 and 2016	35,481	(3,261)	-	32,220
	35,481	(3,261)	-	32,220
Deferred tax liabilities				
Depreciation property, plant & equipment	18,729	(7,551)	-	11,178
Free amortisation - job creation	46,591	(6,498)	-	40,093
Cash gains on assets	1,976,169	(85,982)	-	1,890,187
Non-refundable grants	27,277	-	(1,789)	25,488
	2,070,269	(100,031)	(1,789)	1,966,946

At December 31, 2017, the Company has no tax losses pending compensation.

PALMA PICTURES T.M.P.C., S.L.
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(In euros rounded to the nearest unit)

12. INCOME AND EXPENSES

12.1 Income

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

Euros	2017	2016
Income from rendering of services	16,552,516	14,521,700
Income from Photo shoots	703,549	1,369,461
Total	17,256,065	15,891,161

12.2 Supplies

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

Euros	2017	2016
Purchase of goods and supplies	(1,541)	20,942
Total	(1,541)	20,942

12.3 Personnel Expenses

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

Euros	2017	2016
Wages, salaries and similar	2,902,268	1,787,655
Provision for permanence commitments	108,000	-
Social Security	679,611	417,798
Other welfare expenses	26,665	37,841
Total	3,716,544	2,243,294

At closing, a provision has been recorded, under short-term provisions, for a permanence commitment for certain Company employees for an amount of 108 thousand euros. Said amount has been estimated based on a formula which depends on the value of the Company's net assets.

PALMA PICTURES T.M.P.C., S.L.
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(In euros rounded to the nearest unit)

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 insurance policies subscribed.

No expenses for this concept have been incurred during in either 2017 or 2016.

14. POST-BALANCE SHEET EVENTS

There are no significant post-balance sheet events which effect these annual accounts.

15. TRANSACTIONS WITH RELATED PARTIES

Related parties in 2017 and 2016 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
Pathfinder Media, S.L.U. (liquidated in 2017)	Group company
Directors	Board members
Top management	Management

15.1 Related parties

Balances and transactions with related companies are as follows:

	Accounts receivable	Accounts payable	Sales and services rendered	Purchases and services received
2017				
Pathfinder Media, S.L.U. (liquidated in 2017)	-	-	-	-
NW Mallorca 2017, S.L.U.	90,750	-	260,816	6,196
Living the Dream, S.L.U.	-	-	-	-

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2017
(In euros rounded to the nearest unit)

2017	Accounts receivable	Accounts payable	Sales and services rendered	Purchases and services received
Pathfinder Media, S.L.U.	91,588	85,122	-	-

15.2 Directors and top management

No remuneration was accrued by Board Members who do not hold executive positions in 2017 and 2016.

Remuneration accrued in the year by top management, including a Board Member, has amounted to 623,761 euros (321,689 euros in 2016).

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, 2017 and 2016 the Company had no pension plans or life insurance policies for previous or present Board members. Moreover, at December 31, 2017 and 2016, no advances or credits were granted to top management or to Board members and no obligations were assumed on their behalf as security.

During 2017 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 2,123 euros (2,123 euros in 2016)

PALMA PICTURES T.M.P.C., S.L.
Notes to the Annual Accounts for the year ended December 31, 2017
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16. OTHER DISCLOSURES

a) Average number of employees:

The average number of employees in 2017 by category is shown below. At December 31, 2017 and 2016, there are no significant changes with regard to the following distribution by categories:

Categories	2017			2016		
	Male	Female	Total	Male	Female	Total
Top management	3.32	-	3.32	3.32	-	3.32
Heads of Department	4.90	6.24	11.14	4.90	6.24	11.14
Clerks	6.22	4.01	10.23	6.22	4.01	10.23
Auxiliary staff	9.95	5.36	15.31	9.95	5.36	15.31
Total	24.39	15.61	40.00	24.39	15.61	40.00

In both 2017 and 2016, the Company has had no employees with a registered disability of over 33%.

b) Audit fees

The audit fees for these standalone 2017 Annual Accounts amount to 14,500 euros (14,500 euros in 2016). Moreover, the fees paid for other services rendered by the Company auditors and other companies which are part of the Firm, amount to 2,850 euros (2,875 euros in 2016).

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.
Notes to the Annual Accounts for the year ended December 31, 2017
(In euros rounded to the nearest unit)

ISSUANCE OF ANNUAL ACCOUNTS

In Palma de Mallorca on April 11, 2018, the Company's Directors issue these annual accounts which are comprised of a balance sheet, a profit and loss account, a statement of changes in equity, a cash flow statement and Notes to the Annual Accounts all of which have been signed by the Secretary of the Board. This last page has been signed by all the Board members

Zallaz, S.A., represented by Mr. Ture Stendahl
Chairman

Mr. Michael Aidan Day
Board Member

Mr. Carl Joachim Vitales Odqvist
Board member

Mr. Juan Pablo Nicolau Nano
Non-Board Secretary

PALMA PICTURES T.M.P.C., S.L.
Management report for the year ended December 31, 2017

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

Palma Pictures has become stronger in 2017, because several of the risks taken by the Company at the end of 2016 have paid off. Important decisions were made regarding both concentrating on new business lines and managing the margins of the various activities. Moreover, we have gained various clients with a higher than normal repeat rate, which is just another sign of the gradual change in the value chain.

Although there has been a similar number of contracts for our main activity, which is the production of advertisements, the operating margins have been higher. Moreover, we have maintained the geographical variety of our clients, which is important for us.

The Photography Department has seen a slight setback due to changes in its management team. We still have the loyalty of many clients and have started 2018 with a stronger structure with a view to taking on an interesting year.

The Cinema and Television Department has shown part of its potential this year. We have filmed the two ITV 'Love Island' projects, as well as other projects which have been partially undertaken. However, we expect to undergo considerable growth in this business area in future years.

In addition to the above, we have set up a specific programme regarding project profitability and the control of fixed and/or recurring expenses. If possible, we hope to continue working more intensely on this programme during 2018.

2. Post-balance sheet events

The renewal of the projects with ITV have been confirmed, as well as our involvement in other cinema projects, which make us confident that this part of our activity can generate significant income.

3. Company's foreseeable evolution

This year's budget is based on a similar performance to that of 2017, although we expect a greater proportion of the profits to be generated by new clients and the Cinema and Television Department. The figures we have achieved in the first months of the year are supporting these expectations.

PALMA PICTURES T.M.P.C., S.L.
Management report for the year ended December 31, 2017

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

In Palma Pictures, we are aware of the importance of respecting and protecting the environment, as well as having a pro-active attitude regarding the possible impact that we may have on the environment. For this reason, in 2009 we began the process of implementing an Environmental Management System in accordance with standard ISO 14001:2004 and European Regulation 1221/2009 of the Eco-management and Audit Scheme (EMAS), in order to control and improve our environmental behaviour while undertaking our activities and we certified these systems in 2010.

PALMA PICTURES T.M.P.C., S.L.
Management report for the year ended December 31, 2017

In Palma de Mallorca on April 11, 2018, the Company's Directors issue this Management Report, which consists of 3 pages, all signed by the Secretary of the Board. This last page has been signed by all the Board members.

Zallaz, S.A., represented by Mr. Ture Stendahl
Chairman

Mr. Michael Aidan Day
Board Member

Mr. Carl Joachim Vitales Odqvist
Board member

Mr. Juan Pablo Nicolau Nano
Non-Board Secretary