Promotora de Informaciones, S.A. (Prisa) and Subsidiaries

Interim Condensed Consolidated Financial Statements and Interim Directors' Report for the six month period ended June 30, 2017, together with the Report of Limited Review

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish- language version prevails.

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Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

REPORT ON LIMITED REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of

Promotora de Informaciones, S.A. at the request of the Board of Directors:

Report on the interim condensed consolidated financial statements

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements ("the interim financial statements") of Promotora de Informaciones, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the condensed consolidated balance sheet as at June 30, 2017 and the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated cash flows statement and explanatory notes thereto for the six-month period then ended. The Parent's directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial information, in conformity with Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of the Review

Our limited review was performed in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of the persons responsible for financial and accounting matters, and applying certain analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with the audit regulations in force in Spain and, consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

As a result of our limited review, which under no circumstances may be considered an audit of financial statements, nothing has come to our attention that might cause us to believe that the accompanying interim financial statements for the six-month period ended June 30, 2017 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, pursuant to Article 12 of Royal Decree 1362/2007, for the preparation of interim condensed financial statements.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Emphasis of matter paragraphs

We draw attention to Note 1 to the accompanying interim condensed consolidated financial statements, which indicates that at June 30, 2017 the equity of the Parent company with respect to the cause of dissolution and/or reduction of capital stipulated in Spain's Corporate Enterprises Act (including participating loans outstanding at year end) stood at 141,635 thousand euros. This amount is minor than two thirds of the share capital although it is higher than half of the share capital, so the Company is in a situation of equity imbalance. The Directors estimate that measures to restore equity balance will be taken within the legally established term. They have measures such as total or partial sale of assets, additional sales of debt at a discount, leveraging operating assets or corporate operations such as a capital increase or reduction. This matter does not affect our conclusion.

Likewise, we draw attention to Note 1 to the accompanying interim condensed consolidated financial statements, which indicates that the aforementioned accompanying interim financial statements do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, therefore, the accompanying interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2016. This matter does not affect our conclusion.

Report on other legal and regulatory requirements

The accompanying interim consolidated directors' report for the six-month period ended June 30, 2017 contains the explanations which the Parent's directors consider appropriate about the significant events that took place in that period and their effect on the interim financial statements presented, of which it does not form part, and about the information required pursuant to Article 15 of Royal Decree 1362/2007. We have checked that the accounting information in the interim consolidated directors' report is consistent with that contained in the interim financial statements for the six-month period ended June 30, 2017. Our work was confined to checking the interim consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Promotora de Informaciones, S.A. and Subsidiaries.

Other matters paragraph

This report was prepared at the request of the Board of Directors in relation to the publication of the half-yearly financial report required by Article 119 of the Consolidated Text of the Securities Market Act, approved by Royal Legislative Decree 4/2015 of October 23 and implemented by Royal Decree 1362/2007 of October 19.

DELOITTE, S.L.

Jesús Mota Robledo
July 28, 2017

Promotora de Informaciones, S.A. (Prisa) and Subsidiaries

Consolidated Condensed Financial Statements and Consolidated
Directors' Report for the six months
ended June 30, 2017, together with the Report of limited review

Translation of consolidated financial statements originally issued in Spanish.
In the event of a discrepancy, the Spanish- language version prevails.

PROMOTORA DE INFORMACIONES, S.A. (PRISA) AND SUBSIDIARIES

Condensed Consolidated Financial Statements together with Consolidated Directors' Report for the six months ended June 30, 2017

PROMOTORA DE INFORMACIONES, S.A. (PRISA) AND SUBSIDIARIES

Condensed Consolidated Financial Statements for the six months ended June 30, 2017

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET AT JUNE 30, 2017

(Thousands of Euros)

ASSETS	Notes	06/30/17 (*)	12/31/16
A) NON-CURRENT ASSETS		**1,255,681**	**1,273,699**
I. PROPERTY, PLANT AND EQUIPMENT	3	110,459	122,390
II. GOODWILL	4	583,079	593,121
III. INTANGIBLE ASSETS	4	126,932	130,796
IV. NON-CURRENT FINANCIAL ASSETS	5	29,797	33,892
V. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	6	40,860	36,690
VI. DEFERRED TAX ASSETS	7	361,658	353,653
VII. OTHER NON-CURRENT ASSETS		2,896	3,157
B) CURRENT ASSETS		**765,893**	**852,732**
I. INVENTORIES		162,963	168,679
II. TRADE AND OTHER RECEIVABLES			
1. Trade receivables for sales and services		372,857	400,622
2. Receivable from associates		2,730	2,571
3. Receivable from public authorities		38,616	40,956
4. Other receivables		27,081	30,694
5. Allowances		(57,395)	(56,719)
		383,889	418,124
III. CURRENT FINANCIAL ASSETS	5	19,742	19,506
IV. CASH AND CASH EQUIVALENTS		199,299	246,423
TOTAL ASSETS		**2,021,574**	**2,126,431**

EQUITY AND LIABILITIES	Notes	06/30/17 (*)	12/31/16
A) EQUITY	**8**	**(356,311)**	**(336,045)**
I. SHARE CAPITAL		235,008	235,008
II. OTHER RESERVES		(725,619)	(705,059)
III. ACCUMULATED PROFIT		82,585	47,470
- From prior years		68,686	115,329
- For the year: Profit attributable to the Parent		13,899	(67,859)
IV. TREASURY SHARES		(669)	(1,735)
V. EXCHANGE DIFFERENCES		(27,759)	(809)
VI. NON CONTROLLING INTEREST		80,143	89,080
B) NON-CURRENT LIABILITIES		**1,902,345**	**1,909,125**
I. NON-CURRENT BANK BORROWINGS	9	1,666,698	1,653,535
II. NON-CURRENT FINANCIAL LIABILITIES	9	125,548	136,149
III. DEFERRED TAX LIABILITIES	7	17,431	21,055
IV. LONG-TERM PROVISIONS	10	54,267	56,516
V. OTHER NON-CURRENT LIABILITIES		38,401	41,870
C) CURRENT LIABILITIES		**475,540**	**553,351**
I. TRADE PAYABLES		238,344	301,636
II. PAYABLE TO ASSOCIATES		1,209	1,609
III. OTHER NON-TRADE PAYABLES		46,564	67,945
IV. CURRENT BANK BORROWINGS	9	71,679	68,488
V. CURRENT FINANCIAL LIABILITIES	9	35,407	23,104
VI. PAYABLE TO PUBLIC AUTHORITIES		65,577	61,633
VII. PROVISIONS FOR RETURNS		2,690	8,071
VIII. OTHER CURRENT LIABILITIES		14,070	20,865
TOTAL EQUITY AND LIABILITIES		**2,021,574**	**2,126,431**

(*) Non audited financial statements

The accompanying Notes 1 to 19 are an integral part of the Condensed Consolidated Balance Sheet at June 30, 2017.

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2017

(Thousands of Euros)

	Notes	06/30/2017 (*)	06/30/2016 (*)
Revenues	13	643,564	616,307
Other income		11,460	8,147
OPERATING INCOME	11	655,024	624,454
Cost of materials used		(95,135)	(100,645)
Staff costs		(202,871)	(193,508)
Depreciation and amortisation charge		(33,834)	(36,468)
Outside services	11	(238,368)	(243,763)
Variation in operating allowances		(2,814)	(4,216)
Other expenses		(2,135)	(910)
OPERATING EXPENSES		(575,157)	(579,510)
PROFIT FROM OPERATIONS		79,867	44,944
Finance income		1,499	21,055
Finance costs		(34,538)	(47,154)
Changes in value of financial instruments		6,754	-
Exchange differences (net)			106
FINANCIAL LOSS	12	(26,285)	(25,993)
Result of companies accounted for using the equity method		1,719	1,989
Loss from other investments		(1,163)	(36)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		54,138	20,904
Income tax		(25,068)	(17,752)
PROFIT FROM CONTINUING OPERATIONS		29,070	3,152
Loss after tax from discontinued operations		(985)	(287)
CONSOLIDATED PROFIT FOR THE PERIOD		28,085	2,865
Profit attributable to non controlling interests		(14,186)	(13,349)
PROFIT ATTRIBUTABLE TO THE PARENT		13,899	(10,484)
BASIC EARNINGS PER SHARE (in euros)		0.18	(0.13)
DILUTED EARNINGS PER SHARE (in euros)		0.16	(0.13)

(*) Non audited financial statements

The accompanying Notes 1 to 19 are an integral part of the Condensed Consolidated Income Statement for the six months ended June 30, 2017

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF COMPRENHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2017
(Thousands of Euros)

	06/30/2017 (*)	06/30/2016 (*)
CONSOLIDATED PROFIT FOR THE YEAR	**28,085**	**2,865**
Items that may be reclassified subsequently to profit or loss	**(30,244)**	**15,640**
Translation differences	**(32,100)**	**19,155**
Available-for-sale financial assets	**(27)**	**4**
Profit/(Loss) for valuation	(27)	4
Tax effect	**7**	**(1)**
Entities accounted for using the equity method	**1,876**	**(3,518)**
TOTAL RECOGNIZED INCOME AND EXPENSE	**(2,159)**	**18,505**
Attributable to the Parent	(8,102)	847
Attributable to non-controlling interests	5,943	17,658

(*) Non audited financial statements

The accompanying Notes 1 to 19 are an integral part of the Condensed Consolidated Statement of Comprehensive Income for the six months ended June 30, 2017.

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2017
(Thousands of Euros)

	Share Capital	Share Premium	Reserves	Reserves for First-Time Application of IFRSs	Prior Years' Accumulated Profit	Treasury Shares	Exchange Differences	Accumulated Profit for the Year	Equity Attributable to the Parent	Non Controlling Interests	Total Equity
Balance at 31 December 2015	**235,008**	**1,371,299**	**(2,099,327)**	**(72,661)**	**138,912**	**(2,386)**	**(37,662)**	**5,294**	**(461,523)**	**66,936**	**(394,587)**
Issuance of equity instruments *(Note 8)*			100,742						100,742		100,742
Treasury share transactions											
- Delivery of treasury shares						636			636		636
- Reserves for treasury shares			418			(418)			-		-
Distribution of 2015 result											
- Reserves			(5,168)		10,462			(5,294)	-		-
Income and expense recognised in equity											
- Translation differences					(9,690)		21,018		11,328	4,309	15,637
- Profit for 2016								(10,484)	(10,484)	13,349	2,865
- Measurement of financial instruments			3						3		3
Other		(7)	(4,525)		(6,433)		7,120		(3,845)	860	(2,985)
Changes in non controlling interest											
- Dividends recognized during the Year										(17,569)	(17,569)
- Due to changes in scope of consolidation										53	53
Balance at June 30, 2016 (*)	**235,008**	**1,371,292**	**(2,007,857)**	**(72,661)**	**133,251**	**(2,168)**	**(9,524)**	**(10,484)**	**(363,143)**	**67,938**	**(295,205)**
Balance at 31 December 2016	**235,008**	**1,371,299**	**(2,003,697)**	**(72,661)**	**115,329**	**(1,735)**	**(809)**	**(67,859)**	**(425,125)**	**89,080**	**(336,045)**
Treasury share transactions											
- Delivery of treasury shares						311			311		311
- Reserves for treasury shares			(755)			755			-		-
Distribution of 2016 result											
- Reserves			(19,698)		(48,161)			67,859	-		-
Income and expense recognised in equity											
- Translation differences					4,969		(26,950)		(21,981)	(8,243)	(30,224)
- Profit for 2017								13,899	13,899	14,186	28,085
- Measurement of financial instruments			(20)						(20)		(20)
Other			(87)		(3,451)				(3,538)	889	(2,649)
Changes in non controlling interest											
- Dividends recognized during the Year										(15,769)	(15,769)
Balance at June 30, 2017 (*)	**235,008**	**1,371,299**	**(2,024,257)**	**(72,661)**	**68,686**	**(669)**	**(27,759)**	**13,899**	**(436,454)**	**80,143**	**(356,311)**

(*) Non audited financial statements

The accompanying Notes 1 to 19 are an integral part of the Condensed Consolidated Statement of Changes in Equity for the six months ended June 30, 2017.

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED CASH FLOWS STATEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2017

(Thousands of Euros)

	06/30/2017 (*)	06/30/2016 (*)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**54,138**	**20,904**
Depreciation and amortisation charge and provisions	38,681	41,531
Changes in working capital	**(84,017)**	**(18,766)**
Inventories	5,716	(16,647)
Accounts receivable	34,803	55,271
Accounts payable	(124,536)	(57,390)
Income tax recovered (paid)	(24,105)	(18,682)
Other profit adjustments	**23,314**	**19,186**
Financial results	26,285	25,993
Gains and losses on disposal of assets	(1,856)	325
Other adjustments	(1,115)	(7,132)
CASH FLOWS FROM OPERATING ACTIVITIES	**8,011**	**44,173**
Recurrent investments	**(31,866)**	**(32,906)**
Investments in intangible assets	(21,785)	(23,190)
Investments in property, plant and equipment	(10,081)	(9,716)
Investments in non-current financial assets	(4,826)	(10,110)
Proceeds from disposals	4,241	106,207
Investments in non-current financial assets	53	94
CASH FLOWS FROM INVESTING ACTIVITIES	**(32,398)**	**63,285**
Proceeds and payments relating to equity instruments	-	(871)
Proceeds relating to financial liability instruments	34,392	51,609
Payments relating to financial liability instruments	(27,964)	(201,260)
Dividends and returns on other equity instruments paid	(2,228)	(27,821)
Interest paid	(22,531)	(21,291)
Other cash flow from financing activities	(1,149)	(231)
CASH FLOWS FROM FINANCING ACTIVITIES	**(19,480)**	**(199,865)**
Effect of foreign exchange rate changes	(3,257)	(2,684)
CHANGE IN CASH FLOWS FROM CONTINUING OPERATIONS	**(47,124)**	**(95,091)**
CHANGE IN CASH FLOWS IN THE YEAR	**(47,124)**	**(95,091)**
Cash and cash equivalents at beginning of year	**246,423**	**319,001**
- Cash	236,230	301,129
- Cash equivalents	10,193	17,872
Cash and cash equivalents at end of period	**199,299**	**223,910**
- Cash	187,568	218,228
- Cash equivalents	11,731	5,682

(*) Non audited financial statements.

The accompanying Notes 1 to 19 are an integral part of the Condensed Consolidated Cash Flow Statement for the six months ended 30 June 2017.

PROMOTORA DE INFORMACIONES, S.A. (PRISA) AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements for the six months ended June 30, 2017

Translation of condensed consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union. In the event of a discrepancy, the Spanish-language version prevails.

PROMOTORA DE INFORMACIONES, S.A. (PRISA)

AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2017

(1) BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2017

The condensed consolidated financial statements of Grupo Prisa for the first half of 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, taking into account all mandatory accounting policies and rules and measurement bases with a material effect, as well as with the Commercial Code, the obligatory legislation approved by the Institute of Accounting and Auditors of Accounts, and other applicable Spanish legislation.

The condensed consolidated financial statements for the six months ended June 30, 2017 and the notes have been prepared by the Company's directors are presented in accordance with IAS 34 *Interim Financial Reporting* in compliance with RD 1362/2007, of October 19, implementing the Spanish Securities Market Law 24/1988, of July 28, as it relates to the need for transparent information on issuers whose securities are admitted to trading on an official secondary market.

These interim condensed consolidated financial statements were approved by the Prisa´s Directors on July 28, 2017.

These consolidated financial statements are presented in thousands of euros.

In accordance with IAS 34, the interim financial reporting is prepared in order to update the latest approved consolidated financial statements, highlighting the new activities, events and circumstances that have taken place during the first six month of the year and avoiding the repetition of information previously reported in the consolidated financial statements for 2016. Therefore, the interim condensed consolidated financial statements do not contain all the information and disclosures required for a complete set of consolidated financial statements in accordance with IFRSs as adopted by the European Union. In order to correctly understand the information included in these condensed consolidated financial statements for the six months ended June 30, 2017, they must be read in conjunction with the consolidated financial statements for 2016.

The IFRSs are applied in the preparation of the consolidated financial information of the Group. The financial statements of individual companies that are part of the Group are prepared and presented in accordance with accounting standards in each country.

In accordance with IAS 8, the accounting principles and measurement bases applied by the Group are applied uniformly in all transactions, events and concepts, in the first half of 2017 and 2016.

The condensed consolidated financial statements for the six months ended June 30, 2017 have been subjected to a limited review by the external auditor of the company.

a) Evolution of the financial structure of the Group

In December 2013, the Group signed an agreement to refinance its financial debt which involved maturity date extensions.

Since the signature of the refinancing agreement, the company paid off a total of EUR 1,751,385 thousand using the funds primarily from the sale of 17.3% de Mediaset España Comunicación, S.A. ("Mediaset España"), the sale of 56% of DTS and the increase in capital subscribed by Consorcio Transportista Occher, S.A. de C.V. ("Occher") in 2014 and by International Media Group, S.à.r.l. in 2015.

Additionally, on April 1, 2016 the Shareholders´ General Meeting of Prisa approved the bonds issue, mandatorily convertible into newly issued ordinary shares, through the conversion of financial debt of the Company. The issue of the bonds were subscribed in April 2016 through debt cancellation for an amount of EUR 100,742 thousand *(see note 8).*

These transactions made a significant contribution to reinforce Prisa's equity and to fulfil in advanced its commitments to reduce debt for 2015 and 2016.

The next relevant financial commitment is to fall due in 2018, when Tranche 2 falls due (*see note 9*). The Group is studying several options to meet these objectives such as the total or partial sale of assets, buying back debt at a discount in the market, leveraging operating assets and carrying out other corporate transactions.

In this sense, at July 13rd 2017 the Board of Directors of Prisa has accepted a binding offer submitted by Altice NV for the sale of its Portuguese subsidiary Grupo Media Capital, SGPS, S.A. ("Media Capital") for an approximate equity value of EUR 321,499 thousand according to the Company´s best estimates. The final price will depend on the evolution of Media Capital until the date on which the sale is closed. Afterwards, the parties have executed a share purchase agreement, this transaction is subject to the obtaining of the required authorization of the antitrust and regulatory authorities in Portugal and to obtention of the waiver from certain lenders of Prisa, as well as the approval by the General Shareholders Meeting of Prisa *(see note 18)*.

At June 30, 2017, the equity of the parent company with respect to the cause of dissolution and/or reduction of capital stipulated in Spain's Corporate Enterprises Act (including participating loans outstanding at year end) stood at EUR 141,635 thousand. This amount is minor than two thirds of the share capital although it is higher than half of the share capital, so the company is in a situation of equity imbalance.

The agreement for the sale of Media Capital would entail the recording of an accounting loss in the parent company of approximately EUR 81,400 thousand.

The Directors estimate that measures to restore equity balance will be taken within the legally established term. They have measures such as total or partial sale of assets, additional sales of debt at a discount, leveraging operating assets or corporate operations such as a capital increase or reduction.

b) New standards which have become effective

During the first half of 2017, no new accounting standards applicable in the preparation of these consolidated condensed financial statements have been implemented.

The Group has elected not to early adopt other IFRSs issued but not yet effective.

There is no accounting principle or measurement bases having a significant effect on the condensed consolidated financial statements that the Group has failed to apply.

As of the date of preparation of these condensed consolidated financial statements, the Group is analysing the impact of IFRS 15 *"Revenues from contracts with clients"* in the different businesses, mainly in digital learning systems in Education (UNO and Compartir). As of June 30, 2017 revenue from UNO and Compartir accounted for 10.4% of the Group´s total operating revenues. In relation of IFRS 9 *"Financial Instruments"*, the Group is also analyzing the impact of this standard in the financial statements, mainly in relation to the impairment of financial assets. The Group expects to be able to apply the simplified model for the impairment of its assets. Both standards shall be mandatory for the years beginning on or after January 1, 2018.

c) Estimates

Consolidated earnings and the determination of consolidated equity are subject to the accounting policies and standards, measurement bases and estimates applied by the Group's directors in the preparation of the condensed interim consolidated financial statements. The accounting policies and standards and measurement bases are explained in notes 2 and 4 to the consolidated financial statements for 2016.

In the condensed interim consolidated financial statements, estimates were occasionally made by management of the Group to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates, based on the best information available, refer mainly to:

1. Income tax expense, which in accordance with IAS 34 is recognized in each interim period based on the best estimate of the weighted average annual income tax rate the Group expects for the full year.

2. The measurement of assets and goodwill to determine the possible existence of impairment losses.
3. The useful life of property, plant and equipment and intangible assets.
4. The assumptions used to calculate the fair value of financial instruments.
5. The likelihood and amount of undetermined or contingent liabilities.
6. Provisions for unissued and outstanding invoices.
7. Estimated sales returns received after the end of the reporting period.
8. The estimates made for the determination of future commitments.
9. The recoverability of deferred tax assets.

Although these estimates were made on the basis of the best information available to date on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) at the end of 2017 or future reporting periods. The effects of changes in accounting estimates are applied prospectively in profit and loss in the periods affected by the change.

In the six months ended June 30, 2017, there were no significant changes in the estimates made at the end of 2016.

d) Comparison of the information

The information contained in these condensed consolidated financial statements for the six months ended June 30, 2016 is presented only for comparison purposes with the information relating to the six months ended June 30, 2017.

e) Seasonality of the Group

Given the different sources of revenues and activities carried out by Group companies, operations are not considered to be highly cyclical or seasonal. The evolution of the educational business results throughout the year depends on the timing of the educational campaigns in the different countries where it operates. However, this effect is mitigated by the performance of the result from other sources of revenues such as advertising.

f) Materiality

In accordance with IAS 34 the Group assessed materiality in relation to the condensed interim consolidated financial statements in determining the information to disclose in these explanatory notes regarding the different line items in the financial statements.

g) Correction of errors

No errors were corrected in the condensed consolidated financial statements for the six months ended June 30, 2017.

(2) CHANGES IN THE GROUP STRUCTURE

The most significant changes in the scope of consolidation in the first half of 2017 were as follows:

Subsidiaries

In April 2017, Instituto Universitario de Postgrado, S.A., was liquidated, 61.42% owned by Santillana Formación, S.L.

In June 2017, Merchandising on Stage, S.L.U. was sold, 100% owned by Gran Vía Musical de Ediciones, S.L.

(3) PROPERTY, PLANT, AND EQUIPMENT

Additions to the Group's consolidated financial statements under "*Property, plant and equipment*" during the first half of 2017 totaled EUR 10,081 thousand, corresponding mainly to the investments made for Santillana in digital developments and learning systems (EUR 6,090 thousand), investments made for Media Capital in audiovisual equipment (EUR 1,141 thousand) and investment in technical equipment made for Prisa Radio in Colombia and Spain and in the remodeling of Chile's headquarters (EUR 1,003 thousand).

The expense of amortization of property, plant and equipment registered during the first half of 2017 amounts to EUR 15,160 thousand.

(4) GOODWILL AND INTANGIBLE ASSETS

The decrease of the *"Goodwill"* is due to the effect of changes in exchange rates of goodwill arising from investments in Editora Moderna, Ltda. and Grupo Latino de Radiodifusión Chile, Ltda.

Additions to the Group's condensed consolidated financial statements under "*Intangible assets*" during the first half of 2017 amounted to EUR 21,785 thousand and are derived mainly from prototypes of the education business (EUR 16,836 thousand).

The expense of amortization of intangible assets registered during the first half of 2017 amounts to EUR 18,674 thousand.

(5) FINANCIAL ASSETS

The detail of "*Non- current financial assets*" and "*Current financial assets*" is as follows:

	Thousands of euros					
	Non-current financial assets		Current financial assets		Total financial assets	
	06/30/17	12/31/16	06/30/17	12/31/16	06/30/17	12/31/16
Loans and receivables	16,309	17,060	7,624	7,757	23,933	24,817
Held to maturity investments	11,986	12,849	8,379	8,909	20,365	21,758
Available-for-sale financial assets	1,502	3,983	3,739	2,840	5,241	6,823
Total	**29,797**	**33,892**	**19,742**	**19,506**	**49,539**	**53,398**

(6) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Changes in "*Investments accounted for using the equity method*" in the accompanying condensed consolidated balance sheets, during the first half of 2017, is mainly due to the effect of exchange rate in Sistema Radiópolis, S.A. de C.V.

(7) TAX MATTERS

Deferred tax assets and liabilities

The change in "*Deferred Tax Assets*" is largely down to: (i) the tax credit arising from the limitation on the deductibility of finance costs through to June 2017, amounting to EUR 4,763 thousand; (ii) the impact of reporting the negative tax base generated by the tax consolidation group -of which Prisa Individual is the parent company- in the first half of the year, amounting to EUR 1,947 thousand; and (iii) the different tax treatment and accounting recognition of certain provisions posted by Santillana's companies in Latin America, for the net amount of EUR 1,423 thousand.

Tax credits have been capitalised where the Group's directors estimate that they will be recovered according to the criteria established in the accounting regulation.

The change in *"Deferred Tax Liabilities"* is mainly down to: (i) the impact of having different accounting and tax recognition criteria for finance income resulting from discounted debt buybacks during this and in previous financial years, representing a net cancellation of EUR 1,532 thousand; and (ii) the different accounting and tax recognition criteria for certain institutional sales carried out in Brazil, which led to the cancellation of EUR 1,398 thousand.

Tax Inspections

In the first half of 2017, Prisa received notice of certain judgments delivered by the National Court dismissing its claim in relation to the tax settlements deriving from enforcement proceedings for corporate income tax for 1999 and 2000, which have now become final and binding. Despite the subsequent appeal, the tax liability under these settlements was paid in due time and will therefore have no further effect on equity.

In the first half of 2017, Prisa received notice of a judgment delivered by the Supreme Court dismissing the terms of its notice of disagreement with the tax on raffles, tombolas, bets and random combinations, for financial years 2007 to 2010, at the company Prisa Televisión, S.A.U. (company absorbed by Promotora de Informaciones, S.A.). This has now become final and binding. Despite the subsequent appeal, the relevant tax liability was paid in due time and will therefore have no further effect on equity.

Also in the first half of 2017, inspection proceedings got under way at Tax Consolidation Group 2/91, of which Promotora de Informaciones, S.A. is the parent company, and at Tax Consolidation Group 194/09, of which Prisa Radio, S.L. was the parent company, such proceedings concerning corporate income tax for the years 2012 to 2015 and value added tax, withholdings/payments on account of work-related and professional remuneration, and also non-resident income tax withholdings for the period spanning 02/2013 to 12/2015.

As of the date of elaboration of these explanatory notes, a partially appropriate resolution has been received from the Regional Economic and Administrative Tribunal of Madrid in relation to the partial inspections relating to Corporate Income Tax corresponding to fiscal year 2008 of the Tax Consolidation Group 225/04, of which the company Dédalo Grupo Gráfico, SL, was parent company in the aforementioned exercise and resolution of the sanction derived from such actions for EUR 1,525 thousand.

Other relevant tax matters

Following the same tax reform ushered in by Royal Decree-Law 3/2016, of 2 December, the Group has now recognized an additional expense of EUR 4,662 thousand for corporate income tax, as a result of the minimum five-year integration of the reversal of impairment losses on the equity instruments of companies that were tax deductible in the past.

(8) EQUITY

Share capital

During the first half of 2017 the share capital of Prisa has not changed and neither *Warrants 2013* have been exercise by its owners.

On June 30, 2017, the share capital of Prisa amounts to EUR 235,008 thousand and is represented by 78,335,958 ordinary shares with a nominal value of EUR 3.00 each.

Share capital is fully subscribed and paid up.

Prisa has issued bonds mandatorily convertible into newly-issued common shares of Prisa, in accordance with the terms and conditions approved by the Ordinary Shareholders Meeting and the Board of Directors, both held on April 1, 2016 (*see section Issuance of financial instrument*).

Share premium

The amount of the issue premium reserve at June 30, 2017 amounting to EUR 1,371,299 thousand and it is totally unrestricted, in accordance with requirements established in the law.

Issuance of financial instrument

On April 1, 2016 the Shareholders´ General Meeting of Prisa approved a bonds issuance, mandatorily convertible into new issue ordinary shares of Prisa, through the conversion of financial debt of the Company. The issuance has been exclusively aimed to certain financial creditors of the Company that subscribed a total of 10,074,209 bonds through the capitalization of some credits that amount a total of EUR 100,742 thousand. The issue of the bonds subscribed in April and it is divided in two tranches:

- Tranche A: amounting to EUR 32,112 thousand subscribed by HSBC Bank Plc., Caixabank, S.A. and several companies of Grupo Santander through the exchange of the total subordinated debt arising from capitalized interest associated with the bond issuance made in 2012.

- Tranche B: amounting to EUR 68,630 thousand subscribed by HSBC of part of the profit participative loans.

The maturity date of the bonds is April 7, 2018, without prejudice to the right of early conversion in certain circumstances as described in the resolution approving the issuance. The bonds have a unit conversion price of 10 euros per share and will accrue an annual coupon payable in new shares of the company at the conversion date.

The issuance of the bond was registered as an equity instrument as it is mandatory convertible into a fixed number of shares and included no contractual obligation to deliver cash or another financial asset. Therefore, in 2016 the line *"Other reserves"* of the accompanying condensed balance sheet included an increase in equity of EUR 100,742 thousand as a result of valuating the transaction at the fair value of the equity instruments to be issued.

During the first half of 2017, the accrued annual coupon amounted to EUR 1,339 thousand (EUR 1,950 thousand at 2016), payable at the time of conversion.

Non-controlling interest

The detail, by company, of the non-controlling interest at June 30, 2017 and December 31, 2016 is as follows:

	Thousands of euros	
	06/30/2017	12/31/2016
Caracol, S.A.	10,868	13,749
Diario As, S.L.	11,857	11,648
GLR Chile, Ltda.	16,328	17,733
Grupo Santillana Educación Global, S.L. and subsidiaries	10,781	15,519
Grupo Media Capital, SGPS, S.A. and subsidiaries	7,408	7,895
Prisa Radio, S.L. and subsidiaries (Spain)	16,034	15,749
Other companies	6,867	6,787
Total	**80,143**	**89,080**

(9) FINANCIAL LIABILITIES

The detail of *"Non-current financial liabilities"* and *"Current financial liabilities"* is as follows:

	Thousands of euros					
	Non-current financial liabilities		Current financial liabilities		Total financial liabilities	
	06/30/17	12/31/16	06/30/17	12/31/16	06/30/17	12/31/16
Bank borrowings	1,666,698	1,653,535	71,679	68,488	1,738,377	1,722,023
Other financial liabilities	125,548	136,149	35,407	23,104	160,955	159,253
Total	**1,792,246**	**1,789,684**	**107,086**	**91,592**	**1,899,332**	**1,881,276**

Bank borrowings

The most significant balance under *"Total financial liabilities"* relates to bank borrowings, the detail of which at June 30, 2017 and December 31, 2016, in thousands of euros is as follows:

	06/30/17		12/31/16	
	Drawn-down amount maturing at short term	Drawn-down amount maturing at long term	Drawn-down amount maturing at short term	Drawn-down amount maturing at long term
Syndicated loan Prisa (Tranche 2)	-	956,512	-	956,512
Syndicated loan Prisa (Tranche 3)	-	176,985	-	176,985
Préstamo participativo (PPL)	-	439,775	-	439,775
Credit facilities, loans, finance leases and other	71,882	117,140	68,555	110,292
Loan arrangement costs	(203)	(23,714)	(67)	(30,029)
Total	**71,679**	**1,666,698**	**68,488**	**1,653,535**

In accordance with IFRS 13, to determine the theoretical calculation of the fair value of the financial debt we used the Euribor curve and the discount factor supplied by the bank and the actual credit risk arising from a report provided by an independent expert regarding the transactions made in the secondary debt market once the refinancing process is completed (level 2 variables, estimates based on other observable market methods). The fair value of the Group's financial debt, according to this calculation, would amount to EUR 1,639,023 thousand at June 30, 2017 considering a 6.99% average discount over the real principal payment obligation to the creditor entities.

In December 2013, as part of the refinancing of its financial debt, Prisa agreed to the renewal of its syndicated loan by structuring its debt in two tranches (Tranche 2 and Tranche 3):

Tranche 2-

Tranche 2 of the debt, currently fixed at EUR 956,512 thousand, has an interest rate referenced to the Euribor plus a margin negotiated with the lenders. Tranche 2 matures in December 2018.

The Group study several options to meet this maturity such as the total or partial sale of assets, buying back debt at a discount in the market, leveraging operating assets and carrying out other corporate transactions (*see note 1).*

Tranche 3-

The Tranche 3 maturing in 2019 and its interest rate is a margin negotiated with the lenders, as well as, a capitalized fixed cost (PIK).

On June 30, 2017, the amount of Tranche 3 stood at EUR 176,985 thousand.

Participating Loan (PPL)-

The participative loans originated in order to restore the equity balance of Prisa after registered the losses arising from the sale of DTS. As expected in financing agreements of the Group, the automatic mechanism was deployed to convert part of Tranche 3 of company debt into participating loans.

The participating loans at June 30, 2017 amounted to EUR 439,775 thousand. Its financial cost is identical to that for Tranche 3.

Compliance with certain financial ratios is established in the financial agreements. The Group's directors consider that these ratios were fulfilled at June 30, 2017.

The refinancing agreement also includes causes for early termination as customary in this kind of agreements, including the acquisition of control of Prisa, acquisition being understood as by one or several persons together, with more than 30% of the capital with voting rights.

The guarantee structure for Tranches 2, 3 and PPL is as follows:

Personal guarantees

Tranches 2, 3, and PPL of the Prisa debt corresponding to debt which was refinanced in December of 2013 are severally guaranteed by Grupo Bidasoa Press, S.L., Dédalo Grupo

Gráfico, S.L., Diario El País, S.L., Distribuciones Aliadas, S.A., Grupo Empresarial de Medios Impresos, S.L., Norprensa, S.A. and Prisa Participadas, S.L.

Also, Prisa Radio, S.A. and Vertix, SGPS, S.A. guarantee Tranches 2, 3, and PPL, with the following limitations:

- The guarantee granted by Prisa Radio, S.A. will be limited to a maximum amount equal to the lesser of the following:
    - EUR 1,314,706 thousand; and
    - 73.49% of equity at any given moment; and
- The guarantee granted by Vertix SGPS, S.A. will be limited to a maximum amount of EUR 600,000 thousand.

Guarantees

In December, 2013, resulting from a new syndicated loan which was repaid early in May, 2015, and the renewal of the remaining loans, Prisa pledged on certain owned bank accounts and, additionally, Bidasoa Press, S.L., Dédalo Grupo Gráfico, S.L. and Distribuciones Aliadas, S.A.constituted pledge on certain properties and receivables related to certain material contracts to guaranty the said creditors.

Also, on January 10, 2014, a pledge was granted for Prisa's shares in Audiovisual Sport, S.L. (80% share capital).

Part of the Prisa investment in Grupo Santillana Educación Global, S.L. (75% share capital), in Prisa Radio, S.A. (73.49% share capital) and Grupo Media Capital SGPS, S.A. (84.69% share capital) was also pledged, thereby insuring Tranches 2, 3, and PPL.

A pledge on certain properties and credit rights was also granted to the creditors of the financing granted to Dédalo Grupo Gráfico, S.L.

Other financial liabilities

At June 30, 2017, *"Other financial liabilities"* mainly include a financial liability of EUR 125,548 thousand for the obligation to pay preferential dividends in an annual minimum amount of 25.8 million dollars to DLJSAP Publishing Cööperatief, U.A. for its 25% equity stake in Grupo Santillana Educación Global, S.L.

On June 30, 2017, under the heading "*Other current financial liabilities*" is collected the obligation to pay accrued by the aforementioned dividend in the first half of 2017 for an amount of EUR 11,300 thousand, as well as, dividend accrued in 2016, pending payment to date, amounting to EUR 23,076 thousand.

(10) LONG-TERM PROVISIONS

Long term provisions include provisions for taxes, related to the estimated amount of tax debts arising from the tax audit carried out at various Group companies and provisions for third-party liabilities, relate to the estimated amount required to meet possible claims and litigation brought against Group companies (*see note 7*), as well as the provision booked in the previous years to record the downsizing processes. Also, it includes the negative net value in companies accounted for using the equity method.

The breakdown of "Long-term provisions" at June 30, 2017 and at December 31, 2016, is as follows:

	Thousands of euros	
	06/30/17	12/31/16
For taxes	27,214	26,805
For redundancies	11,316	9,644
For third-party liability and other	15,737	20,067
Total	**54,267**	**56,516**

(11) OPERATING INCOME AND EXPENSES

Operating income

The breakdown of income from the Group's main business lines for the six months ended June 30, 2017 and June 30, 2016 is as follows:

	Thousands of euros	
	06/30/17	06/30/16
Advertising sales and sponsorship	228,308	235,132
Sales of books and training	322,789	275,768
Newspaper and magazine sales	40,211	46,800
Sales of add-ons and collections	9,391	10,674
Sale of audiovisual rights and programs	13,840	15,452
Intermediation services	3,763	3,221
Other services	25,262	29,260
Revenue	**643,564**	**616,307**
Income from non-current assets	3,348	908
Other income	8,112	7,239
Other income	**11,460**	**8,147**
Total operating income	**655,024**	**624,454**

Staff

The average number of employees at the Group and its breakdown by sex is as follows:

	06/30/17	06/30/16
Men	4,777	4,769
Women	3,944	3,958
Total	**8,721**	**8,727**

Outside services

The detail of *"Outside services"* for the six months ended June 30, 2017 and June 30, 2016 is as follows:

	Thousands of euros	
	06/30/17	06/30/16
Independent professional services	62,401	62,826
Leases and fees	27,127	27,771
Advertising	23,855	26,058
Intellectual property	17,322	15,703
Transport	17,206	17,126
Other outside services	90,457	94,279
Total outside services	**238,368**	**243,763**

(12) FINANCIAL RESULT

The detail of *"Financial result"* for the group at June 30, 2017 and 2016 is as follows:

	Thousands of euros	
	06/30/17	06/30/16
Income from current financial assets	387	859
Income from equity investments	63	136
Other finance income	1,049	20,060
Finance income	**1,499**	**21,055**
Interest on debt	(26,942)	(31,347)
Adjustments for inflation	86	(44)
Loan arrangement costs	(6,017)	(12,588)
Other finance costs	(1,665)	(3,175)
Finance costs	**(34,538)**	**(47,154)**
Exchange gains	16,990	7,694
Exchange losses	(10,236)	(7,588)
Exchange differences (net)	**6,754**	**106**
Financial loss	**(26,285)**	**(25,993)**

In the first half of 2016, the *"Other finance income"* included capital gains on purchases of debt at a discount using the proceeds of the sale of DTS and of the capital increased subscribed by International Media Group, S.à.r.l. *(see note 1a).*

(13) BUSINESS SEGMENTS

The breakdown of the consolidated revenues of the Group based on the geographical location of the companies that gave rise to them is as follows:

	Thousands of euros	
	06/30/17	06/30/16
Internal market	238,881	247,453
Exports:	404,683	368,854
a) European Union	78,744	83,841
b) OECD countries	75,609	70,945
c) Other countries	250,330	214,068
Total	**643,564**	**616,307**

At June 30, 2017, Prisa's operations are divided into four main businesses:

- Education, which includes primarily the sale of educational books and the services and materials related to the education systems;
- Radio, the main source of revenue from which is the broadcasting of advertising and, in addition, the organization and management of events and the provision of other supplementary services;
- Press, which groups together mainly the activities relating to the sale of newspapers and magazines, advertising, promotions and printing; and
- Audiovisual, this segment was formed by the Portuguese subsidiary Grupo Media Capital, SGPS, S.A. until December 2016 and obtains their revenue mainly from the broadcasting of advertising and audiovisual production. Since January, 2017, Prisa Audiovisual, S.L.U. and Prisa Producciones de Video, S.L. have been included in this segment. These companies obtain their revenue from the production, distribution and audiovisual marketing. In accordance with IFRS 8, for purposes of comparison, the information by segments for the six months ended June 30, 2016 was restated.

Segment information about these businesses for the six months ended June 30, 2017 and June 30, 2016 is presented below (in thousands of euros):

	Ordinary revenue from external customers		Ordinary revenue between segments		Total ordinary revenue	
	06/30/17	06/30/16	06/30/17	06/30/16	06/30/17	06/30/16
Education	327,719	279,366	302	195	328,021	279,561
Radio	135,054	135,105	1,714	2,695	136,768	137,800
Press	84,774	98,010	24,280	24,022	109,054	122,032
Audiovisual	80,036	85,904	218	432	80,254	86,336
Other	27,441	26,069	10,731	2,562	38,172	28,631
(-) Adjustments and elimination of ordinary income between segments	-	-	(37,245)	(29,906)	(37,245)	(29,906)
Total	**655,024**	**624,454**	**-**	**-**	**655,024**	**624,454**

	Profit from operations	
	06/30/17	06/30/16
Education	36,446	(2,873)
Radio	7,658	2,301
Press	(5,209)	1,261
Audiovisual	7,658	6,772
Other	5,620	12,962
Total profit for the segments reported	**52,173**	**20,423**
(+/-) Elimination of internal profits (between segments)	(24,088)	(17,558)
(+/-) Income tax and/or profits from discontinued operations	26,053	18,039
Total profit before tax from continuing operations	**54,138**	**20,904**

	Assets	
	06/30/17	12/31/16
Education	511,943	570,821
Radio	392,561	413,398
Press	289,437	155,153
Audiovisual	575,582	580,246
Other	252,051	406,813
Total	**2,021,574**	**2,126,431**

(14) RELATED PARTY TRANSACTIONS

The transactions performed with related parties in the six months ended June 30, 2017 and in 2016 were as follows (in thousands of euros):

	06/30/2017			06/30/2016		
	Directors and executives	Group employees, companies or entities	Significant shareholders	Directors and executives	Group employees, companies or entities	Significant shareholders
Finance expenses	-	672	8,650	-	231	9,545
Services received	-	230	4,920	-	140	7,932
Leases	-	263	1,445	-	471	1,604
Purchase of goods	-	-	2	-	-	15
Other expenses	7,810	79	1,034	6,220	87	82
Total expenses	**7,810**	**1,244**	**16,051**	**6,220**	**929**	**19,178**
Finance income	-	24	-	-	54	-
Provision of services	-	1,413	1,590	-	1,263	4,302
Leases	-	45	15	-	-	15
Other revenue	-	26	47	-	75	433
Total revenue	**-**	**1,508**	**1,652**	**-**	**1,392**	**4,750**

All related party transactions have taken place under market conditions.

Transactions with directors and executives

The aggregate amount of EUR 7,810 thousand corresponded to the remuneration received by directors and executives as detailed in note 15.

Transactions between Group employees, companies or entities-

The aggregate amount of EUR 1,244 thousand is mainly includes the expenditure derived from the leasing of frequencies of radio with associates companies and financial expense for the negative exchange differences generated by loans granted to associated companies.

Finally, the aggregate amount of EUR 1,413 thousand mainly includes the income received by Radio in Spain from provision of technical assistance and advisory services, the income for sale of newspapers to Kioskoymás, Sociedad Gestora de la Plataforma Tecnológica, S.L.

Transactions between with significant shareholders -

The aggregate amount of EUR 16,051 thousand mainly consists of expenditure on telephony and internet by Prisa Group companies with Telefónica, S.A., the expense by the leasing of offices in Tres Cantos with Telefónica, as well as interest accruing on credits granted by major shareholders to Prisa Group companies.

Meanwhile, the aggregate amount of EUR 1,652 thousand mainly consists of income of Prisa Group companies for advertising services with Banco Santander, S.A., Caixabank, S.A. and Telefónica, S.A.

The detail of other transactions performed with related parties in the six months ended June 30, 2017 and in 2016 is as follows (in thousands of euros):

	06/30/2017			06/30/2016	
	Group employees, companies or entities	Significant shareholders	Other related parties	Group employees, companies or entities	Significant shareholders
Financing agreements: loans granted	-	-	-	443	-
Financing agreements: loans received	-	-	-	-	6,000
Guarantees and collateral received	-	-	-	-	-
Other transactions	-	1,339	1,000	-	100,742

"Other transactions" with significant shareholders at June 30, 2017 includes the interests accrued in the period by the issue of the mandatory convertible bond into shares *(see note 8).*

"Other transactions" with other related parties at June 30, 2017 includes the account pending payment of EUR 1,000 thousand to Fundación Santillana, in relation to the agreement signed in December 2016 with Fundación Santillana for the purchase of shares held in Diario El País, S.L. and Ediciones El País, S.L.

(15) REMUNERATION AND OTHER BENEFITS OF BOARD MEMBERS AND DIRECTORS

In the six months ended June 30, 2017 and 2016, the consolidated companies registered the following amounts in respect of remuneration to Prisa's Board members and executives:

	Thousands of euros	
	06/30/17	**06/30/16**
Fixed remuneration	1,107	1,105
Variable remuneration	1,169	1,161
Attendance fees	222	280
Bylaw-stipulated directors' emoluments	767	683
Other	1,910	64
Total remuneration received by Board members	**5,175**	**3,293**
Total remuneration received by executives	**2,635**	**2,927**

The aggregated remuneration of directors and senior management reflected in the table above corresponds to the accounting provisions made in the income statement of Promotora de Informaciones, S.A. (Prisa) and other companies of its Group.

Remuneration of the Directors:

Regarding the first half of 2017:

i) The overall compensation of the Board of Directors includes the remuneration of Ms. Blanca Hernández, who ceased as directors during the first half of 2017.

ii) Within the variable remuneration of the directors, are included the following items:

- Annual variable compensation (bonus): reflection of the amount corresponding to theoretical annual variable compensation of the executive directors if management objectives are achieved. However, since this compensation is subject to achievement of the management objectives at the end of the year 2017, the accounting figure in no way constitutes acknowledgment that that variable compensation has accrued, which will occur, if at all, once the year is closed and the annual accounts of the Group are prepared, based on the level of achievement of the established objectives.

- Regularization of 2016 bonus paid in June 2017.

- Multi-year variable incentive of the Executive President, Mr. Juan Luis Cebrián Echarri, payable in shares of Prisa for the period 2016-2018, subject to the fulfilment of the strategic objectives to be set by the Board of Directors in accordance with the provisions of his contract: the above table includes the accounting expenses recorded in the income statement of the first half of 2017 in the amount of EUR 250 thousand.

iii) Within Others is included the compensation for termination of the contractual relationship of the Chief Executive Officer Mr José Luis Sainz, which will take effect from September 4, 2017, amounting to EUR 1,875 thousand. This is the result of applying the mutually agreed termination clause in the contract with Mr. Sainz (15 monthly fixed remuneration and last bonus received).

iv) No other credits, advances or loans occurred, nor were pension obligations incurred, in respect of the Board of Directors during the first half of 2017.

Remuneration of Senior Management:

Regarding the first half of 2017:

i) The aggregate compensation of the managers is the compensation of members of senior management, that being understood to be the members of the Business Management Committee that are not executive directors and have an employment relationship with Prisa and other companies in the Group and, furthermore, the internal audit manager of Promotora de Informaciones, S.A. Specifically, it is that of the following executives: Mr. Antonio García-Mon, Ms. Bárbara Manrique de Lara, Ms. Noelia Fernández Arroyo, Mr Ignacio Soto Pérez, Mr. Miguel Angel Cayuela Sebastián, Mr. Andrés Cardó Soria, Mr. Manuel Mirat Santiago, Ms. Rosa Cullel and Ms. Virginia Fernández.

The remuneration of Mr Fernando Martinez Albacete, until his resignation as CFO of PRISA, in May 2017, is also included within the total compensation of senior management.

ii) The aggregated remuneration of senior management of Promotora de Informaciones, S.A. and other companies of its Group, during the first half of 2017, is the accounting reflection of the overall compensation and includes, inter alia:

- Annual variable compensation (bonus): reflection of the amount corresponding to theoretical annual variable compensation of the executives if management objectives are achieved. However, since this compensation is subject to achievement of the management objectives at the end of the year, the accounting figure in no way constitutes acknowledgment that that variable compensation has accrued, which will occur, if at all, once the year is closed and the annual accounts of the Group are prepared, based on the level of achievement of the established objectives.

- Regularization of 2016 bonus paid in March 2017.

- Regularization made after the settlement of long-term variable remuneration (ILP) for the period 2014-2016 and approved by the Ordinary Shareholders' Meeting held on April 28, 2014, paid in 2017 to some managers.

(16) GUARANTEE COMMITMENTS TO THIRD PARTIES

At June 30, 2017, Prisa had furnished bank guarantees amounting to EUR 70,706 thousand. For this amount, EUR 50,000 thousand correspond to the litigation for football rights of Audiovisual Sport, S.L.

Additionally, in March 2014, Grupo Santillana Educación Global, S.L. signed a guarantee with Banco ITAU in respect to the sale of the trade publishing business for an amount of EUR 7,129 thousand. This guarantee ensures the payment of any amount claimed under the agreement of the sale of Penguin Random House Grupo Editorial, S.A.

The Company’s directors do not consider that significant impacts in the financial statements of the Group will arise from the guarantees provided.

(17) ONGOING LITIGATIONS AND CLAIMS

On July 24, 2006, Audiovisual Sport, S.L. (“AVS”), Sogecable, S.A.U. (now known as Prisa), TVC multimedia, S.L. and Mediaproducción, S.L. (“Mediapro”) reached an agreement for the exploitation of the rights to the football league (La Liga) for the 2006/07 and subsequent seasons. The fundamental purpose of the agreement was to maintain the operating model for televised football that had allowed, under the coordination of AVS, the broadcast since 1997 of all of the matches in La Liga in a peaceful, stable and ordered fashion.

Following repeated breaches of the agreement by Mediapro, from the moment immediately after its signature, and the non-payment of the amounts owed to AVS, the latter filed a claim against Mediapro on July 3, 2007, subsequently expanded on July 31, 2007.

On September 28, 2007 Mediapro responded to the claim and filed a counterclaim against the other signatories to the contract dated July 24, 2006, pleading that said contract was null and void.

On October 8, 2007 the Juzgado de Primera Instancia [Magistrate's Court] number 36 in Madrid accepted the precautionary measures sought by AVS against Mediapro, declaring that the rights of the clubs in the Primera Divisíón corresponding to the 2007/2008 season, the object of the application, belonged to AVS and resolving "to prohibit Mediapro, for the 2007/08 season, from any disposal and exploitation of the audiovisual rights assigned to AVS with the exception of the legitimate use of the same that may take place within the legal framework corresponding to the Agreement of July 24, 2006".

In fulfilment of the aforementioned order, AVS submitted to the Court a guarantee for an amount of EUR 50 million, to guarantee the fulfilment of its contractual obligations. The order of October 8, 2007 was reversed by the Audiencia Provincial [Provincial Court] of Madrid in the month of July 2008, with the aforementioned guarantee remaining at the disposal of the Juzgado de Primera Instancia until the conclusion of the proceedings for the payment of damages, proceedings that were subordinated to the definitive judgement on the principal proceedings.

Following various judgements that were appealed by both parties within the course of these proceedings, after the definitive Judgement of January 9, 2015 of the Supreme Court, declaring the agreement of July 24, 2006 null and void as it ruled that the agreement as a whole had the aim of restricting competition and all of its clauses were related to the purpose pursued, on September 14, 2015, Mediapro requested the lifting of the suspension and the continuation of the motion for the determination of damages arising from the precautionary measure of October 8, 2007. By means of a Court Order dated September 28, 2015, the Court agreed the continuation of the motion and ordered for a legal expert, in view of the judgement of the Supreme Court, to quantify the possible damages caused by the adoption of the precautionary measure, granting him until February 2017 and quantifying said damages at EUR 65,096 thousand. The hearing of said proceedings took place on March 16, 2017 and currently AVS is awaiting an order on the matter, which will be appealable by any of them, without suspensive effects. As a guarantee for said proceedings, the guarantee that AVS submitted to the Court for an amount of EUR 50 million remains in place.

Subsequently, on June 20, 2016 AVS filed a claim against Mediapro for damages suffered by AVS for the illegitimate use of its audiovisual rights by Mediapro during the 2007/08 and 2008/09 seasons. Following the declaration of the nullity of the Agreement of July 24, 2006 by the aforementioned Judgement of the Supreme Court, and given that during the 2007/08 and 2008/09 seasons Mediapro and AVS marketed and exploited the audiovisual rights of certain football clubs from the Primera and Segunda División, whose rights had been assigned by the clubs both individually and exclusively, either to AVS or to Mediapro, AVS filed a claim in the courts of Barcelona with the aim of claiming from Mediapro the undue net result obtained by this company (Mediapro) by the exploitation of the audiovisual rights of those clubs whose rights belonged to AVS, reduced by the undue net result obtained, at the same time, by AVS, from the exploitation of the rights of the clubs whose rights belonged to Mediapro. The claim was accompanied by an expert report, the conclusion of which was that due to a difference between the Undue Net Results obtained by AVS and Mediapro, each in its own right, AVS obtained a positive balance in its favour of EUR 85,117 thousand, which is the balance that is now claimed by AVS in the claim of June 20, 2016. Mediapro responded to the claim in due time and form, making a claim of res judicata the core of its procedural position and submitted expert evidence in opposition to the conclusion of the expert report submitted by AVS, and Court No. 37 of Barcelona set a date of January 29, 2017 for the preliminary hearing. The preliminary hearing was held on June 7, 2017 and on July 3 notification was received that the judgement of Juzgado de Primera Instancia [Magistrate's Court] no. 37 of Barcelona rejected the claim, applying the status of res judicata, or claim preclusion, to the rest of the 2007/08 season and the entire 2008/09 season, and not entering into an assessment of the financial repercussions of the use of the audiovisual rights belonging to the other party. AVS will submit an appeal to the Audiencia Provincial [Provincial Court] of Barcelona, requesting the reversal of said judgement and the consideration of AVS's claims.

Meanwhile on May 12, 2016, Mediaproducción, S.L.U. and Imagina Media Audiovisual (the "Claimants") filed a claim at the Juzgado de Primera Instancia [Magistrate's Court] of Colmenar Viejo, requiring joint and several condemnation of AVS and DTS to payment of compensation for an amount of EUR 89,739 thousand. The Claimants claim that Mediapro was forced to enter bankruptcy proceedings after having been deliberately placed in a situation of imminent insolvency given that on June 16, 2010 (i) it was notified of the provisional enforcement requested by AVS of the judgement of March 15, 2010 (referred to above), obliging Mediapro to redress AVS with EUR 104.6 million and (ii) DTS had sent a letter announcing that it could not continue complying with the contract dated June 4, 2009 for exploitation of the audiovisual rights to La Liga [the league] and La Copa [the cup] during the 2009/2010, 2010/2011, 2011/2012 seasons if Mediapro did not constitute a guarantee to ensure that, in the event that it became impossible for Mediapro to fulfil its obligations, the latter would proceed to return to DTS the amounts delivered (therefore, DTS announced that it wasn't going to pay the EUR 91,200 thousand that it owed under the contract of June 15, 2010). Mediapro feels that the request for enforcement of the judgement, conjointly with the coordinated breach by DTS of the contract dated June 4, 2009, wrecked the foundations upon which its bankers had been disposed to finance Mediapro for the amounts necessary to pay the compensation required by AVS.

Faced with the situation of imminent insolvency as a result of being unable to deal with payment of the compensation and without the possibility of negotiating an agreement with the banks, on June 16, 2010 Mediapro urged the declaration of bankruptcy. For all of the above reasons, Mediapro considers that AVS and DTS have fraudulently caused its bankruptcy and estimates at EUR 89,739 thousand the damages caused to Mediapro and the Imagina Group as a consequence of said bankruptcy.

For their part, both DTS on the one hand, and AVS on the other, responded to Mediapro's claim in due time and form, with both responses accepted for consideration by Juzgado de Primera Instancia no. 82 of Madrid; the preliminary hearing having been held on May 25, 2017, it was indicated that judgement would take place on January 23, 2018.

Finally, Prisa is in the course of a dispute with Indra Sistemas, S.A., (“Indra”) as a result of an attempt by Indra to terminate unilaterally the Framework Contract dated December 22, 2009, for the global outsourcing of information technology management services and development of the I+D+i Projects (hereinafter, “the Contract”). With Prisa having obtained a precautionary measure prohibiting Indra from interrupting or ceasing to fulfil the obligations incumbent upon it by virtue of the Contract until December 31, 2017, Prisa and Indra have sought the postponement of said dispute because they are negotiating an agreement that will put an end to the controversy, and which they expect to sign in the next few weeks.

The Group's directors and the internal and external legal advisers do not expect any material liabilities not already recognised to arise for the Group as a result of the outcome of all of these lawsuits.

Additionally, the Group is involved in other lawsuits for lesser claims, as a result of which the Directors and the internal and external legal advisers do not expect any material liabilities to arise.

(18) EVENTS AFTER THE BALANCE SHEET DATE

On July 13, 2017, the Board of Directors of Prisa has agreed to accept the binding offer submitted by Altice NV for the whole stake that Prisa has in Media Capital at an enterprise value of EUR EUR 440,000 thousand.

Afterwards, the parties have executed a share purchase agreement by means of which Prisa will transfer to MEO - Serviços de Comunicaçao e Multimédia, S.A., Altice’s affiliate, its entire stake in Media Capital, which represents 94.69% of its share capital.

The execution of the transaction is subject to the obtaining of the required authorization of the antitrust and regulatory authorities in Portugal and to the obtention of the waiver from certain lenders of Prisa, as well as the approval by the General Shareholders Meeting of Prisa.

The final price of the transaction is subject to the usual adjustments in this kind of transactions. Prisa considers that, according to its most reasonable estimate, the price for Prisa’s stake in Media Capital, after calculating those adjustments, would be around EUR 321,499 thousand (“equity value”). The final price will depend on the evolution of Media Capital until the date on which the sale is closed.

This transaction, net of the estimated costs to sell, would mean an accounting loss in the consolidated Prisa accounts of approximately EUR 69,000 thousand and in the individual accounts of Prisa of EUR 81,400 thousand approximately.

The Directors of Prisa estimate that as of June 30, 2017, the conditions required by IFRS 5 were not met to consider this transaction highly probable at that date, as there is no approval of the transaction. As a consequence, Media Capital has not been classified as a non-current asset held for sale.

As indicated in note 13 of these explanatory notes, the information relating to Media Capital is included in the audiovisual business.

(19) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of IFRSs as adopted by the European Union. Certain accounting practices applied by the Group that conform to IFRSs may not conform to other generally accepted accounting principles.

PROMOTORA DE INFORMACIONES, S.A. (PRISA) AND SUBSIDIARIES

Consolidated Directors' Report for the six months ended June 30, 2017

PROMOTORA DE INFORMACIONES, S.A. (PRISA)

AND SUBSIDIARIES

CONDENSED CONSOLIDATED DIRECTOR'S REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2017

1. BUSINESS PERFORMANCE

The Group uses EBITDA to follow the evolution of its businesses and establish the operational and strategic objectives of the Group companies.

The EBITDA is defined as profit from operations plus changes in operating allowances, assets depreciation expense and impairment of assets.

The following tables detail the reconciliation between EBITDA and the Group's profit from operations for each of the segments of the first half of 2017 and 2016 (in millions of euros):

	06.30.2017					
	Education	Radio	Press	Audiovisual	Others	Prisa Group
PROFIT FROM OPERATIONS	**68.5**	**12.2**	**(1.0)**	**12.5**	**(12.3)**	**79.9**
Depreciations and amortisation charge	21.7	4.0	3.9	3.8	0.3	33.8
Change in operating allowances	0.8	1.0	0.8	0.1	0.1	2.8
Impairment of assets	0.9	1.1	-	-	-	2.0
EBITDA	**91.9**	**18.3**	**3.7**	**16.5**	**(11.9)**	**118.5**

	06.30.2016					
	Education	Radio	Press	Audiovisual	Others	Prisa Group
PROFIT FROM OPERATIONS	**35.3**	**8.1**	**3.3**	**12.2**	**(14.0)**	**44.9**
Depreciations and amortisation charge	22.3	3.7	3.6	4.2	2.8	36.5
Change in operating allowances	2.2	1.7	0.2	0.1	-	4.2
Impairment of assets	0.9	(0.1)	-	-	-	0.8
EBITDA	**60.7**	**13.4**	**7.1**	**16.5**	**(11.2)**	**86.5**

The **evolution of the Consolidated Group** in the first half of 2017 is as follows*:*

- Group operating income amounted to EUR 655.0 million (+4.9%) and EBITDA to EUR 118.5 million (+37.1%). Both magnitudes were positively impacted by the evolution of the foreign exchange (FX).

- Key highlights for the first half of 2017 include:

- Advertising revenues grow in Radio and Digital.
- In Education, the performance in Latin America shows growth on local currency (+8%).
- Radio shows signs of recovery in Spain and Latin America.
- In Portugal, Media Capital improves EBITDA, with a Portuguese Market suffering a significant decline in advertising investment.
- Foreign exchange currencies effect had a positive impact in the first half of 2017: EUR 25.7 million in revenues and EUR 10.7 million in EBITDA.

Business evolution breakdown for the first half of 2017:

- Operating revenues in **Education,** amounted to EUR 328 million (+17.3% regarding 2016), with a positive currency effect of EUR 22.8 million. Excluding the foreign exchange effect, revenues would have increased (+9.2%). EBITDA reaches EUR 91.9 million (+51.3%). Excluding the foreign exchange, EBITDA increases +33.8%, comparing to 2016 (foreign exchange effect EUR 10.6 million).

    - In the first half of 2017, most of the Southern Campaign countries have finished, with a solid performance in key countries. Brazil stands out, with an increase in local currency of +19%.
    - Northern campaign countries (Spain and Mexico basically) take place in the 3Q. Sales registered in the first half show only the start of campaign. Spain shows some advance of sales over the same period of last year due to the fact that 2017 is a year with no renewals. This effect will be compensated in the second half of 2017.
    - Digital Education Systems (UNO and Compartir) continue their expansion in Latin America, growing in the number of students to reach 921,722.
    - Norma started to consolidate in Santillana's figures on October 2016, and accounts for EUR 24 million in revenues in the first half of 2017.

- **Radio** operating revenues amounted EUR 136.8 million, basically flat compared to 2016 (-0.7%), and EBITDA reached EUR 18.3 million (+37%) due to the improvement in Spain and Latin America. Foreign exchange effect in EBITDA is almost nonexistent (+0.2 million euros).
    - The slight decline in revenues compared to 2016 is due to the disposal of RLM (Music business) and GLR Networks (USA) that accounted in revenues for EUR 3.2 million, but with negative margins.
    - Advertising revenues of Prisa Radio in Spain recover in the first half of 2017, with a +3% growth.
    - In Latin America, revenues grow +0.8% in euros (-4.7% on constant currency). Chile and Argentina stand out on constant currency. This partially offsets the decline in Colombia (the decline is significantly moderating in the 2Q).
    - Positive impact of foreign exchange effect in revenues of EUR 2.5 million and EUR 0.2 million in EBITDA.
    - According to the last Audience survey (EGM), Prisa Radio in Spain maintains its leadership in talk radio and music radio.

- In the **Press** division, income decreases -10.6% at EUR 109.1 million. Printed advertising, circulation and promotions revenues descend. Digital advertising and cost control partially offset these effects. EBITDA declines EUR 3.5 million, accounting for EUR 3.7 million over the same period last year. Part of this decline is explained by higher severance expenses.

  - Revenues have been affected by the Euro 2016 Football Championship and the 40th Anniversary of El País in 2016.
  - Advertising revenues fall 9.7%
    - Digital advertising increases 5% (accounts for 46% of total advertising revenues of the division).
    - Printed advertising declines -19.5%.
  - Circulation revenues continue to fall (-14%).
  - In the first half of 2017, there is an average of 105.7 million unique browsers (+19%).
  - El País consolidates its position as the first Spanish online newspaper worldwide and As keeps its digital leadership in America.

- In the **Audiovisual** division, **Media Capital**'s revenues account for EUR 79.0 million (-7.3%) and EBITDA EUR 17.4 million (+1%). The strict cost control allows compensating the decline in advertising and Call TV revenues.

  - Total revenues of Media Capital fall -7.3%, moderating the decline in the 2Q, with a complicated Portuguese advertising market.
  - TVI income decreases in revenues basically due to advertising performance.
    - Advertising falls -6.2%.
    - Call TV revenues decline EUR 0.8 million.
  - Radio increases advertising revenues +5.3%.
  - Strong cost control (-9.4%).
  - TVI keeps the leadership in 24hours audience and in prime time, with an average share of 22% (24 hours) and 26% (prime time).
  - Media Capital's Radio mantains as number 1 in the audience share ranking (Radio Comercial has a 24% share).

Net Bank Debt has increased in EUR 57.1 million compared to December 2016 and accounts for EUR 1,543.3 million as of June 2017.

This indicator of debt includes non- current bank borrowings and current bank borrowings, excluding loan arrangement costs, diminish by current financial assets, cash and cash equivalents.

The following table shows the composition of this indicator at June 30, 2017 and at December 31, 2016:

	Million of euros	
	06.30.17	12.31.16
Non-current bank borrowings	1,666.7	1,653.5
Current bank borrowings	71.7	68.5
Loan arrangement costs	23.9	30.1
Current financial assets	(19.7)	(19.5)
Cash and cash equivalents	(199.3)	(246.4)
NET BANK DEBT	**1,543.3**	**1,486.2**

2. PRINCIPAL RISKS ASSOCIATED WITH THE BUSINESS

The activities of the subsidiaries of the Group and therefore its operations and results are subject to risks that can be grouped into the following categories:

- Strategic and operational risks.
- Financial risks.

Strategic and operational risks of the business of the Group

Macroeconomic risks-

Macroeconomical indicators evolution, foreign exchange rates or the evolution of consumption indicators affect the Group’s activities in Iberia and Latin America.

In 2016, growth rates in Spain and Portugal were positive. After the important slowdown and volatility experienced in recent years, from year-end 2013, a change in this trend was shown and was consolidated in recent years, with forecasts of growth for 2017.

Main consumption indicators in these countries have been significantly deteriorated, and have impacted and still could impact, in case expectations of growth are not attained, in the future spending by customers on the products and services of the Group, including advertisers and other consumers of the content offerings of Prisa.

Regarding the activities and investments of Prisa in Latin America, the emerging countries from this region are the countries with higher risk due to their relationship with the United States. Although forecast for the region has improved in last months.

Venezuela is maintained as the economy with the greatest structural risk in the Latin American region, while Brazil shows signs of stabilization, with growth in the 1Q and with positive perspectives for the total of the year. Colombia grows in the year with inflation under control. Chile showed certain signs of acceleration due to forecasts of an increase in the price of copper. Mexico showed signs of slowdown, although it continues to grow. Argentina is expected to return to growth after the decline in 2016 relying on the legislation taken place in the last months. In general terms, macroeconomic forecasts are showing growths in most of the countries except Venezuela, Ecuador and Puerto Rico.

During 2016, the Group's results in Latin America were negatively affected by the weak exchange rate in the region. For the first half of 2017, the FX has affected positively, with an appreciation of major Latin America currencies in the comparison with 2016 (Brazil, Colombia and Chile above all). It is expected that this trend will continue in the second half of the year. The FX effect for the total of the year will depend on the evolution of the currencies. Nowadays there is certain volatility, especially regarding the Brazilian Real and the Mexican Peso.

Additional deterioration of exchange rates could have an adverse effect on operating results and the financial condition of the Group.

Decline in advertising markets-

A relevant portion of the operating income (revenues) comes from advertising revenues through the press, radio, audiovisual and digital businesses. Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and perspectives.

In case those growth expectations in Spain, Portugal and certain Latin American countries were not met and the slowdown in growth or recession in other Latin American countries continued, the outlook for the Group's advertisers could be adversely affected. In view of the grate component of fixed costs associated with business with a high component of advertising revenue (mainly Radio, Press and Television), a drop in advertising revenues directly impacts operating profit and therefore the ability to generate cash flow of the Group.

In addition, advertising revenue in the print media is affected by the change in the business model of the sector towards a digital environment.

Drop of circulation-

Press revenues from copy sales and subscriptions continue being negatively affected by the growth of alternative means of distribution, including free Internet sites for news and other contents. At the moment, there is no sign of this trend to change.

Competition risk-

The businesses of audiovisual, education, radio and press in which Prisa operates are highly competitive industries. The ability to anticipate and adapt to new needs and customer demands, influences the position of the Group's businesses compared to other competitors.

Sector regulation-

Prisa operates in regulated industries and is therefore exposed to regulatory and administrative risks that could adversely impact its business.

Specifically, the Group businesses are subject to comprehensive regulations including the requirement to maintain concessions and licenses for the operations in Audiovisual and Radio segments, while the business of education is subject to the applicable law on national or regional education cycles.

Country risk-

The Group operations and investments may be affected by various risks typical to investments in countries with emerging economies or under unstable situations, the most significant of which include devaluation of foreign currencies, introduction of exchange restrictions, inflation, expropriation or nationalization of foreign assets, changes in applicable foreign tax levels or changes in policies and regulations.

In the specific case of Education, a relevant part of its revenues in Latam come from public sales to Governments. Sales of the business could be negatively affected as far as macroeconomic parameters worsen or there are changes in educational policies.

Litigation risks-

Prisa is involved in significant litigations, which are described in the accompanying explanatory notes *(see note 17)*. Additionally, Prisa is exposed to liabilities for the content of their publications and programs.

Digital activity and safety net systems-

Digital activities depend on internet service providers, online service providers and on systems infrastructure. Significant system failures or security breaches could have an adverse effect on operating results and financial condition of the Group.

Technological risks-

In order to maintain and increase its businesses and competitiveness, Prisa must adapt to technological advances, for which research and development are key factors. Technological changes may facilitate the entry of new competitors and potential market share decrease of the Group.

In addition, services for managing information technology and developing R&D+innovation projects in some of the companies of the Group are outsourced to Indra Sistemas, S.A. (“Indra”). The Group and Indra have initiated formal talks to extend the duration of the contract that binds them.

Financial Risks

Financing risks -

The financial obligations of the Group are described in note 9 "*Financial Liabilities*" of the accompanying explanatory notes.

As is described in that note, in the month of December of 2013 the Group signed a debt refinancing agreement.

From that moment, the company paid off a total of EUR 1,751,385 thousand using the proceeds from the sale of Mediaset España, DTS and the increases in capital subscribed by Consorcio Transportista Occher, S.A. de C.V. and International Media Group, Sá.r.l. Additionally, during 2016 financial debt was reduced by EUR 100,742 thousand due to the issuance of mandatorily convertible bonds into newly issued ordinary shares of Prisa through conversion of financial debt of the company.

These operations allowed the Group to fulfill in advance commitments of debt reduction included in the refinancing agreement, in such a way that the next relevant financial commitment is to fall due in 2018, when Tranche 2 falls due.

On July 13, 2017 the Board of Directors of Prisa has accepted a binding offer submitted by Altice NV for the sale of its Portuguese subsidiary Grupo Media Capital, SGPS, S.A. ("Media Capital"). Afterwards, the parties have executed a share purchase agreement, this transaction is subject to the obtaining of the required authorization of the antitrust and regulatory authorities in Portugal and to obtention of the waiver from certain lenders of Prisa, as well as the approval by the General Shareholders Meeting of Prisa *(see note 18 of the accompanying explanatory notes)*. The approximate price of the transaction is an equity value of EUR 321,499 thousand in accordance to the Company´s best estimates. The final price will depend on the evolution of Media Capital until the date on which the sale is closed. These funds will be used to repay debt.

The Group is studying several options to meet the maturity of the debt such as the total or partial sale of assets, buying back debt at a discount in the market, leveraging operating assets, extension of debt maturities and carrying out other corporate transactions.

The value of the Group's assets in possible divestment processes could be affected by changes in financial markets or in the macroeconomic situation of the countries in which the Group operates. In this sense, the value of the assets could be affected by exchange rate depreciations against the euro or by situations of deceleration and volatility in different countries.

According to the contracts governing borrowing conditions and stipulated requirements, Prisa must meet certain commitments and financial leverage ratios (covenants). These contracts also include cross-default disposals.

As of June 30, 2017, the level of the Group net bank debt (EUR 1,543.3 million), imply certain risks:

- increasing the vulnerability to general economic downturns and adverse industry conditions;
- requiring a portion of cash flow from operations to be dedicated to the payment of interest on the indebtedness, therefore reducing the ability to use cash flow to fund short term operations, working capital requirements, capital expenditures and future business operations;
- exposing the Group to the risk of increased interest rates, as a part of the borrowings are at variable rates of interest; and
- limiting the ability to adjust to changing market conditions and placing the Group at a disadvantage compared to competitors who have less debt.

Equity situation of the parent company of the Group-

At June 30, 2017 the equity of the Company with respect to the cause of dissolution and/or reduction of capital stipulated in Spain's Corporate Enterprises Act (including participating loans outstanding at end) stood at EUR 141,635 thousand, which was over two thirds of the share capital. This amount is minor than two thirds of the share capital although it is higher than half of the share capital, so the company is in a situation of equity imbalance.

The agreement signed in July 2017 for the sale of the whole stake that Prisa has in Media Capital *(see note 18 to the accompanying explanatory notes)* will mean an accounting loss in the individual accounts of Prisa of EUR 81,400 thousand approximately.

Liquidity Risk-

The adverse macroeconomic situation, with significant drops in advertising and circulation has had a negative impact on the ability of the Group's cash generation in the last years, mainly in Spain. The advertising-dependent businesses have a high percentage of fixed costs and drop in advertising revenue significantly impact on margins and cash position, hindering the implementation of additional measures to improve the operational efficiency of the Group.

The Group thoroughly analyzes receivables and payments of its activities and maturity of financial and commercial debt. In relation with the commercial credit risk, the Group evaluates the aging of the debt and constantly manages receivables.

Additionally, the group analyzes on a recurrent basis other financing sources to cover short and medium term liquidity needs. However, as of June 30, 2017, the Group still maintains a net bank debt level of EUR 1,543.3 million.

Minority interests -

There are significant minority interests in some cash generating companies, to highlight education and radio. Santillana is required to pay to its minority shareholders (25% of its share capital) a predetermined fixed preferred dividend.

Interest rates risk exposure-

Approximately 60.01% of its bank borrowings terms are at variable interest rates, and therefore the Group is exposed to fluctuations in interest rates. Currently the Group has no interest rate hedges arrangements.

Fluctuations in foreign exchange rates-

The Group is exposed to fluctuations in the exchange rates mainly in the financial investments in Latin American subsidiaries, and for the revenues and results from those investments.

In order to mitigate this risk, as far as there are available credit facilities, the Group arranges hedges to cover the risk of changes in exchange rates (mainly foreign currency hedges and forwards) on the basis of projections and budgets which are reviewed on a monthly basis, in order to reduce volatility in cash flows transferred to the Parent from foreign subsidiaries.

Tax risks-

Tax risks of the Group are related to a possible different interpretation of the rules that could make the competent tax authorities as well as to the changes in tax rules in the different countries in which the Group operates.

Directors consider probable the recoverability of the tax assets within the legal deadline, although there is a risk that the ability to generate taxable income would not be sufficient to allow the recoverability of the tax credits arising from carry forward of tax losses, the limitation of the deductibility of interest and depreciation expenses and tax deductions.

3. OUTLOOK

The media industry is highly sensitive to trends in the main macroeconomic variables (i.e. GDP), consumption and, especially, the advertising cycle. Businesses like Education and Radio, with international presence, are also sensitive to the foreign exchange evolution. Business operations therefore will be affected by these inputs.

During 2017, growth expectations for Iberia continue, according to IMF (April 2017).

Activities and investments of Prisa in Latin America are exposed to macroeconomical inputs in every country, including potential consumption decline, as a consequence of lower growth rates or even a reduction of the economy.

According to the IMF macroeconomical scenario (April, 2017), in Latin America, growth is expected to continue during 2017, in all of the countries in which Prisa is present, except in Venezuela, Ecuador and Puerto Rico. Brazil will return to growth after two years of descend (it will grow +0.2%) and Argentina will also return to growth (+2.2%). The Group is sensitive to these macroeconomical inputs.

Group´s results of June, in Latin America have been positively impacted by a stronger exchange rate in the region. Excluding the impact of the exchange rate, Latin America´s results continue to show growth in local currency, thanks to growth in countries like Brazil and Argentina and the consolidation of Norma since October 2016, which offsets the fall in Peru (extraordinary sale in 2016).

For the end of 2017, the results in euros of Education and Radio will continue to be affected by the evolution of exchange rates and it is expected that the positive currency effect at the end of the year end continues. In any case, the volatility of Latin American exchange rates remains high.

Another variable influencing future performance is the advertising cycle. However, Prisa's exposure to the evolution of the advertising market is limited due to the diversification of its income (advertising revenues represent 34.9% of the total revenues of 2017). Advertising-dependent businesses have a high percentage of fixed costs, so the increase in advertising revenues significantly impacts on the results, which implies an improvement of margins and cash position of the Group.

Digital advertising continues to increase. Specifically, it increased by 2.6% in 2017 (2016 includes a significant effect in As.com: the Euro 2016 Football Championship) and in the Press Business Unit it now represents 46% of advertising revenue (40% in 2016). It is expected that the growth trend will continue in 2017, according to i2P (April 2017).

During 2016 advertising market grew in Spain +2.9% according to public sources (i2p). The same source estimates for 2017 that growth will continue in the Spanish market with a +2.2% increase.

In Spain, Group's advertising revenues decreased -2.3% in the first half of 2017, due to extraordinary effects that took place in 2016 like the 40th anniversary of El País and European Football Cup. These extraordinary effects were partially offset by growth in digital advertising and a good performance of Radio (both in Network and Local advertising). For 2017, excluding extraordinary effects from 2016, it is estimated that advertising revenues will grow in line with market expectations, supported by digital growth and the performance of Radio advertising.

In Portugal, the recovery of the advertising market started at the end of 2013, continuing in 2014. In 2015 and 2016 the Portuguese market suffered a slowdown due to the economic situation of the country. In 2017, the market remains flat. In this context, with competitors developing an aggressive strategy and the extraordinary effect of the General Elections at the beginning of 2016, advertising revenues of Media Capital decrease by 4.9% over the first half of 2016. For the second half of 2017, it is expected that advertising will grow so that at the end of 2017, advertising revenues will be in line with 2016.

In Latin America, according to Pricewaterhouse Coopers ("Global Entertainment and Media Outlook 2017-2020"), the Radio advertising market will grow in 2017 +3.5%, at constant exchange rates. Prisa Radio in Latin America in the first half fell by -6.6 % at constant exchange rates, affected by the political, economic and social situation in Colombia combined with the effect of the disposal of GLR Networks (Los Angeles affiliated radio business). Excluding the effect of the disposal of GLR Networks, Prisa Radio fell -3.2% in the first half of the year (+3.1% in 2Q). By the end of 2017, it is expected an improvement from the trend of the first half of the year, with grow both at constant and current currencies.

Prisa has other, less cyclical, businesses that do not depend on advertising but still show scope for growth, especially in Latin America. One example is Education, which in 2017 contributed 50.1% of the Group's total revenues and 77.5% of its EBITDA. In Latin America, revenues grew by +17.5%, with a positive currency effect. Excluding the foreign exchange effect, Education increases +9.2% due to growth in countries like Brazil and Argentina and the consolidation of Norma, which offsets the fall in Peru (extraordinary sale in 2016). South Area Campaigns evolution, as a whole, has been positive overall in local currency in 2017. North Area Campaigns will have an impact in Q3. Sales registered in the first half show only the start of campaign showing some advance of sales over the same period of last year basically in Spain. On the other hand, Digital Education Systems (UNO and Compartir) continue their expansion in Latin America, improving profitability in local currency and growing in the number of students. The evolution in 2017, in what refers to Digital Education Systems depends essentially on the recruitment of students in the North area campaign countries.

Part of the Group's growth for 2017 will rely on digital growth. Digital audience numbers rose sharply (139 million unique browsers at June 2017, up 13% from last year). In 2017, the Company will continue its efforts to boost digital growth in all its business lines. Specifically, in Press the focus will remain on fully leveraging the leadership positions of El País and As newspapers, not only in Spain, but also in the American market, in addition to increase the digital video advertising.

In 2017 the Group will continue to reinforce its capital structure, debt reduction and focusing on cash generation.