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, 2018, 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, 2018 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, 2018 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.

Emphasis of matter paragraph

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, 2017. This matter does not affect our conclusion.

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Report on other legal and regulatory requirements

The accompanying interim consolidated directors' report for the six-month period ended June 30, 2018 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, 2018. 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 24, 2018

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

Condensed Consolidated Financial Statements together with Consolidated Directors' Report for the six months ended June 30, 2018

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

Condensed Consolidated Financial Statements for the six months ended June 30, 2018

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET AT JUNE 30, 2018

(Thousands of Euros)

ASSETS	Notes	06/30/18 (*)	12/31/17
A) NON-CURRENT ASSETS		**1,103,117**	**756,693**
I. PROPERTY, PLANT AND EQUIPMENT	3	91,494	82,653
II. GOODWILL	4	489,160	167,556
III. INTANGIBLE ASSETS	4	113,931	110,802
IV. NON-CURRENT FINANCIAL ASSETS	5	24,157	25,561
V. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	6	40,049	37,247
VI. DEFERRED TAX ASSETS	7	341,753	332,846
VII. OTHER NON-CURRENT ASSETS		2,573	28
B) CURRENT ASSETS		**802,266**	**1,166,386**
I. INVENTORIES		151,552	70,145
II. TRADE AND OTHER RECEIVABLES			
1. Trade receivables for sales and services		357,573	372,921
2. Receivable from associates		4,321	3,445
3. Receivable from public authorities		40,107	33,979
4. Other receivables		30,902	22,746
5. Allowances		(66,198)	(51,571)
		366,705	381,520
III. CURRENT FINANCIAL ASSETS	5	24,506	23,340
IV. CASH AND CASH EQUIVALENTS		259,503	217,209
V. ASSETS CLASSIFIED AS HELD FOR SALE	8	-	474,172
TOTAL ASSETS		**1,905,383**	**1,923,079**

EQUITY AND LIABILITIES	Notes	06/30/18 (*)	12/31/17
A) EQUITY	**9**	**31,477**	**(485,911)**
I. SHARE CAPITAL		524,687	83,498
II. OTHER RESERVES		(509,396)	(489,781)
III. ACCUMULATED PROFIT		(7,352)	(119,572)
- From prior years		(7,754)	(16,657)
- For the year: Profit attributable to the Parent		402	(102,915)
IV. TREASURY SHARES		(2,622)	(694)
V. EXCHANGE DIFFERENCES		(48,655)	(37,894)
VI. NON CONTROLLING INTEREST		74,815	78,532
B) NON-CURRENT LIABILITIES		**1,330,677**	**863,136**
I. NON-CURRENT BANK BORROWINGS	10	1,145,197	642,248
II. NON-CURRENT FINANCIAL LIABILITIES	10	123,150	120,147
III. DEFERRED TAX LIABILITIES	7	19,480	23,901
IV. LONG-TERM PROVISIONS	11	41,666	39,007
V. OTHER NON-CURRENT LIABILITIES		1,184	37,833
C) CURRENT LIABILITIES		**543,229**	**1,545,854**
I. TRADE PAYABLES		275,147	245,852
II. PAYABLE TO ASSOCIATES		1,435	1,380
III. OTHER NON-TRADE PAYABLES		75,633	42,600
IV. CURRENT BANK BORROWINGS	10	85,645	1,002,633
V. CURRENT FINANCIAL LIABILITIES	10	11,090	22,630
VI. PAYABLE TO PUBLIC AUTHORITIES		64,773	39,785
VII. PROVISIONS FOR RETURNS		3,690	10,507
VIII. OTHER CURRENT LIABILITIES		25,816	21,391
IX. LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	8	-	159,076
TOTAL EQUITY AND LIABILITIES		**1,905,383**	**1,923,079**

(*) Non audited financial statements

The accompanying Notes 1 to 20 are an integral part of the Condensed Consolidated Balance Sheet at June 30, 2018.

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2018

(Thousands of Euros)

	Notes	06/30/2018 (*)	06/30/2017 (*)
Revenues	14	609,815	643,564
Other income		19,269	11,460
OPERATING INCOME	12	629,084	655,024
Cost of materials used		(86,497)	(95,135)
Staff costs		(197,309)	(202,871)
Depreciation and amortisation charge		(29,695)	(33,834)
Outside services	12	(230,698)	(238,368)
Variation in operating allowances		(3,972)	(2,814)
Other expenses		(405)	(2,135)
OPERATING EXPENSES		(548,576)	(575,157)
PROFIT FROM OPERATIONS		80,508	79,867
Finance income		27,134	1,499
Finance costs		(69,540)	(34,538)
Exchange differences (net)		(1,716)	6,754
FINANCIAL LOSS	13	(44,122)	(26,285)
Result of companies accounted for using the equity method		2,439	1,719
Loss from other investments		-	(1,163)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		38,825	54,138
Income tax		(22,800)	(25,068)
PROFIT FROM CONTINUING OPERATIONS		16,025	29,070
Loss after tax from discontinued operations		-	(985)
CONSOLIDATED PROFIT FOR THE PERIOD		16,025	28,085
Profit attributable to non controlling interests		(15,623)	(14,186)
PROFIT ATTRIBUTABLE TO THE PARENT		402	13,899

BASIC EARNINGS PER SHARE (in euros)		0.00	0.18
DILUTED EARNINGS PER SHARE (in euros)		0.00	0.16

(*) Non audited financial statements

The accompanying Notes 1 to 20 are an integral part of the Condensed Consolidated Income Statement for the six months ended June 30, 2018

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

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

(Thousands of Euros)

	06/30/2018 (*)	06/30/2017 (*)
CONSOLIDATED PROFIT FOR THE YEAR	**16,025**	**28,085**
Items that are not reclassified subsequently to result of the period	**(30,104)**	**-**
Other income and expenses that are not reclassifed to result of the period	**(29,791)**	**-**
Entities accounted for using the equity method	**(313)**	**-**
Items that may be reclassified subsequently to profit or loss	**(19,476)**	**(30,244)**
Translation differences	**(19,618)**	**(32,100)**
Available-for-sale financial assets	**(228)**	**(27)**
Profit/(Loss) for valuation	(228)	(27)
Tax effect	**57**	**7**
Entities accounted for using the equity method	**313**	**1,876**
TOTAL RECOGNIZED INCOME AND EXPENSE	**(33,555)**	**(2,159)**
Attributable to the Parent	(41,780)	(8,102)
Attributable to non-controlling interests	8,225	5,943

(*) 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, 2018
(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 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)**
Balance at 31 December 2017	**83,498**	**95,002**	**(512,124)**	**(72,659)**	**(16,657)**	**(694)**	**(37,894)**	**(102,915)**	**(564,443)**	**78,532**	**(485,911)**
Capital increases	441,189	122,031							563,220		563,220
Treasury share transactions											
- Delivery of treasury shares						81			81		81
- Purchase of treasury shares						(2,709)			(2,709)		(2,709)
- Reserves for treasury shares			(700)			700			-		-
Distribution of 2017 result											
- Reserves			(131,598)		28,683			102,915	-		-
Income and expense recognised in equity											
- Translation differences					(3,979)		(10,761)		(14,740)	(4,565)	(19,305)
- Profit for 2018								402	402	15,623	16,025
- Measurement of financial instruments			(171)						(171)		(171)
- Other		(17,132)			(10,139)				(27,271)	(2,833)	(30,104)
Other			7,955		(5,662)				2,293	642	2,935
Changes in non controlling interest											
- Dividends recognized during the Year										(12,563)	(12,563)
- Due to changes in scope of consolidation										(21)	(21)
Balance at June 30, 2018 (*)	**524,687**	**199,901**	**(636,638)**	**(72,659)**	**(7,754)**	**(2,622)**	**(48,655)**	**402**	**(43,338)**	**74,815**	**31,477**

(*) Non audited financial statements

The accompanying Notes 1 to 20 are an integral part of the Condensed Consolidated Statement of Changes in Equity for the six months ended June 30, 2018.

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED CASH FLOWS STATEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2018

(Thousands of Euros)

	06/30/2018 (*)	06/30/2017 (*)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**38,825**	**54,138**
Depreciation and amortisation charge and provisions	34,050	38,681
Changes in working capital	**(34,268)**	**(84,017)**
Inventories	(217)	5,716
Accounts receivable	52,214	34,803
Accounts payable	(86,265)	(124,536)
Income tax recovered (paid)	(15,414)	(24,105)
Other profit adjustments	**24,307**	**23,314**
Financial results	44,122	26,285
Gains and losses on disposal of assets	(13,480)	(1,856)
Other adjustments	(6,335)	(1,115)
CASH FLOWS FROM OPERATING ACTIVITIES	**47,500**	**8,011**
Recurrent investments	**(26,445)**	**(31,866)**
Investments in intangible assets	(20,366)	(21,785)
Investments in property, plant and equipment	(6,079)	(10,081)
Investments in non-current financial assets	(5,049)	(4,826)
Proceeds from disposals	21,167	4,241
Investments in non-current financial assets	322	53
CASH FLOWS FROM INVESTING ACTIVITIES	**(10,005)**	**(32,398)**
Proceeds and payments relating to equity instruments	560,092	-
Proceeds relating to financial liability instruments	30,943	34,392
Payments relating to financial liability instruments	(537,139)	(27,964)
Dividends and returns on other equity instruments paid	(23,067)	(2,228)
Interest paid	(17,552)	(22,531)
Other cash flow from financing activities	(6,897)	(1,149)
CASH FLOWS FROM FINANCING ACTIVITIES	**6,380**	**(19,480)**
Effect of foreign exchange rate changes	(1,581)	(3,257)
CHANGE IN CASH FLOWS FROM CONTINUING OPERATIONS	**42,294**	**(47,124)**
CHANGE IN CASH FLOWS IN THE YEAR	**42,294**	**(47,124)**
Cash and cash equivalents at beginning of year	**217,209**	**246,423**
- Cash	191,099	236,230
- Cash equivalents	26,110	10,193
Cash and cash equivalents at end of period	**259,503**	**199,299**
- Cash	245,319	187,568
- Cash equivalents	14,184	11,731

(*) Non audited financial statements.

The accompanying Notes 1 to 20 are an integral part of the Condensed Consolidated Cash Flow Statement for the six months ended 30 June 2018.

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

Notes to the Condensed Consolidated Financial Statements for the six months ended June 30, 2018

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, 2018

(1) BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2018

The condensed consolidated financial statements of Grupo Prisa for the first half of 2018 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, 2018 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 24, 2018.

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 2017. 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, they must be read in conjunction with the consolidated financial statements for 2017.

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 2018 and 2017.

The condensed consolidated financial statements for the six months ended June 30, 2018 have been subjected to a limited review by the external auditor of the company.

a) Evolution of the financial structure of the Group

During 2016, 2017 and 2018, the Administrators of Prisa (the Company) took a number of measures to strengthen the Group's financial and asset structure, such as asset sale operations, capital increases and refinancing of its debt.

In this respect, on April 1, 2016, the Prisa Annual General Meeting approved the issuance of bonds mandatorily convertible into newly-issued ordinary shares through swapping the company's financial debt. The issuance was subscribed in April 2016, with debt amounting to EUR 100,742 thousand being cancelled. In October 2017, these bonds were converted into shares early.

Likewise, the Company's General Shareholders' Meeting on November 15, 2017 agreed to an increase in share capital amounting to EUR 450,000 thousand. On January 22, 2018, this amount was subsequently extended by an additional EUR 113,220 thousand by the Prisa Board of Directors. In February 2018, the capital increase was subscribed by an amount of EUR 563,220 thousand (*see note 9*).

On July 13, 2017, the Prisa Board of Directors accepted a binding offer put forward by Altice NV ("Altice") for the sale of Vertix SGPS, S. A. ("Vertix"), a company owned by Grupo Media Capital, SGPS, S.A. ("Media Capital"). The transaction was authorised in September 2017 by Prisa's financial creditors and in November of that year by the Annual General Meeting. The operation was subject to the mandatory authorisation of the Portuguese competition authorities. In the consolidated financial statements for 2017, Vertix y Media Capital were considered as assets classified as held for sale and Media Capital operations were classified as discontinued operations. On June 18, 2018, the contract for the sale of Media Capital signed between Prisa and Altice was terminated as a consequence of the failure to comply with the deadline agreed by both parties for the last of the conditions precedent pending compliance, concerning Altice obtaining the mandatory authorisation of the operation by the Portuguese Competition Authority. Following this decision, the Prisa Board of Directors agreed that it will be able to evaluate various alternatives for this asset in the future. The sale of the aforementioned asset is not considered to be highly probable at the date of preparing these condensed consolidated financial statements. Therefore, as of June 30, 2018, the assets and liabilities of Vertix and Media Capital Group are no longer reported as held for sale and Media Capital operations as discontinued operations. They have been consolidated as a continuing operation (*see note 8*).

Finally, on January 22, 2018, the Company signed with all the financial creditors of the *Override Agreement* (agreement to refinance the Group's debt signed in December 2013) an agreement to refinance and modify the terms of Prisa's current financial debt (the Refinancing). On June 29, 2018, the Refinancing came into effect, once the agreements reached with all of its creditors were concluded. On this same date, and as one of the preconditions for the agreement to come into force, the Company cancelled a debt amounting EUR 480,000 thousand with the proceeds from the cash capital increase described above (EUR 450,000 thousand) and cash available from the Company (EUR 30,000 thousand). The basic terms of the Refinancing agreement include the extension of the debt maturity date to November and December 2022 and no redemption obligation until December 2020. With the entry into force of the Refinancing agreement, the Group's financial debt has become a long-term maturity which has led to an improvement in the working capital and the Group's financial structure (*see note 10*).

On June 30, 2018, the Parent Company's equity was EUR 583,641 thousand. This amount is greater than two thirds of the capital stock, which is why it was in a situation of equity balance at that date. Likewise, on June 30, 2018, the Prisa Group's current assets exceeded current liabilities by EUR 259,037 thousand.

b) New standards which have become effective

During the first half of 2018, IFRS 15 *Revenue from contracts with customers* and IFRS 9 *Financial instruments* entered into force. The Group has applied this regulation as of January 1, 2018 without restating the comparative information.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from contracts with customers* is the standard applicable when reporting revenue with customers, which has replaced the following standards and interpretations valid until December 31, 2017: IAS 18 *Revenue from Ordinary Activities*, IAS 11 *Construction Contracts*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC31 *Revenue-Barter Transactions Involving Advertising Services*.

IFRS 15 requires identifying the contract or contracts, as well as the different obligations included in contracts for the provision of goods and services, determining the price of the transaction and distributing it among the aforementioned contractual obligations on the basis of their respective independent selling prices or an estimate thereof and recognize income as the entity complies with each of its obligations.

The standard becoming effective mainly affects reporting the reporting of revenue from Santillana's digital teaching in the UNO Education and Compartir areas. The Group's management has mainly considered the following contractual obligations for these businesses, reporting revenue from goods produced or services provided when the control thereof is passed to the customer, in accordance with the following criteria:

- Printed teaching material and digital content: revenue is reported when ownership is transferred to the school or student.

- School's equipment and other services: revenue thereof is reported throughout the school year.

The price and value of revenue from these goods and services was determined by the Group through a margin and independent sale price analysis of thereof. This has entailed the allocation of higher sales prices of equipment and other services rendered, at the cost of printed teaching material and digital content, compared to reporting until 2017.

The impact of the IFRS 15 coming into force has entailed a decrease of EUR 4.4 million in the heading "*Equity- Accumulated profit from prior years*" as at January 1, 2018, due to reporting of minor revenue from Santillana's digital teaching systems in the UNO and Compartir areas, mentioned above.

<u>IFRS 9 Financial Instruments</u>

The effectiveness of the IFRS 9 mainly affects the calculation of the insolvency provision of trade receivables, finance leases and other receivables resulting from transactions within the scope of the IFRS 15. In this regard, the Group has applied a simplified approach to recognize expected credit loss throughout the lifetime of such receivables. This entails setting up a provision for credit losses on revenue recognition, for which a NPL ratio has been determined per business and type of customer, applied to the amount of sales by customer type. The impact resulting from the application of the IFRS 9 has supposed a decrease of 5.8 million in the heading "*Equity - Accumulated profit from previous years*" as at January 1, 2018.

As of the date of preparation of these condensed consolidated financial statements, the Group is analysing the impact of IFRS 16 "*Leases*" in the different businesses. This standard shall be mandatory for the years beginning on or after January 1, 2019.

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.

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 2017.

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 2018 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, 2018, there were no significant changes in the estimates made at the end of 2017.

d) Comparison of the information

The information contained in these condensed consolidated financial statements for the six months ended June 30, 2017 is presented only for comparison purposes with the information relating to the six months ended June 30, 2018.

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, 2018.

(2) CHANGES IN THE GROUP STRUCTURE

The most significant changes in the scope of consolidation in the first half of 2018 were as follows:

Subsidiaries

In February 2018, the liquidation of Infotecnia 11824, S.L., a company in which Prisa Tecnología, S.L. holds an interest of 60%, took place.

In March 2018, Prisa Activos Educativos, S.L.U. was created, which is fully owned by Promotora de Informaciones, S.A.

Also in March the liquidation of Prisa Radio Perú, S.A.C., a company that is 99.99% owned by Sociedad Española de Radiodifusión, S.L. took place.

Additionally in March, Eresmas Interactiva Inc and Latam Digital Ventures, LLC merge with Prisa Digital Inc., a company that is renamed to Prisa Brand Solutions USA, Inc.

In April, the liquidation of Collserola Audiovisual, S.L., a company 99.95% owned by Promotora de Emisoras de Televisión, S.A., took place and Prisa Eventos, S.L. merges with Prisa Noticias, S.L.

Without affecting the Group's consolidation scope, in May 2018 Prisa Participadas, S.L. was partially split, giving rise to Prisa Activos Radiofónicos, S.L. (a company that is fully owned by Promotora de Informaciones, S.A.), which now holds the representative shares of 74.49% of Prisa Radio, S.A. In addition, there was a split in the printing business, Prisaprint, S.L., the shares of which are subsequently contributed to Prisa Noticias, S.L. Also in May, Promotora de Informaciones, S.A. contributed to Prisa Participadas, S.L., through a non-monetary contribution, its 100% interest in Prisa Gestión de Servicios, S.L., Prisa Brand Solutions, S.L.U., Prisa Audiovisual, S.L.U. and Promotora de Emisoras, S.L.

These business operations are aimed at achieving an organisational structure in which the different business areas - i.e. Education, Radio, Press and Audiovisual- are managed through legally separate business units, keeping the rest of the shares considered non-strategic separate, making it possible to optimise the organisational structure of the businesses and the Group's organisation chart.

On June 29, 2018, and in the context of the process of refinancing the Group's debt (*see notes 1a and 10*), Prisa Activos Educativos, S.L.U. acquired 75% of the share capital of Grupo Santillana Educación Global, S.L. (Santillana), of which Prisa Participadas, S.L. was the holder This acquisition has been financed through the assumption by Prisa Activos Educativos, S.L.U. of financial debt of Prisa with the new conditions agreed in the mentioned Refinancing, related to terms, costs and guarantees.

This purchase has been made in accordance with the general rules for transactions between companies of the same group contained in the General Accounting Plan in relation to the valuation of the operation, which has meant assessing it at fair value, based on the valuation report of the participation issued by an independent expert. Once the sale of Santillana was recorded, Prisa Participadas distributed to Prisa a dividend on account of the result of the 2018 financial year amounting to EUR 570 million.

The purpose of this operation is to take advantage of Santillana's financial capacity to service the debt with the cash flows generated by its business and complete the restructuring and reorganisation of the Group's businesses described above.

The sale of Santillana described above has had no impact on either Prisa consolidated net equity or the consolidated income statement.

(3) PROPERTY, PLANT, AND EQUIPMENT

Additions to the Group's consolidated financial statements under "*Property, plant and equipment*" during the first half of 2018 totaled EUR 6,079 thousand, corresponding mainly to the investments made for Santillana in digital developments and learning systems (EUR 3,197 thousand) and investment in technical equipment made for Prisa Radio in Colombia, Spain and Chile (EUR 727 thousand).

Likewise, the property, plant and equipment of Media Capital have been reclassified as of June 30, 2018 under "A*ssets classified as held for sale*" to "*Property, plant, and equipment*" amounting to EUR 13,777 thousand, which includes additions for investments in audiovisual equipment made during the first half of 2018 for a value of EUR 930 thousand (*see notes 1a and 8*).

The expense of amortization of property, plant and equipment registered during the first half of 2018 amounts to EUR 12,293 thousand.

(4) GOODWILL AND INTANGIBLE ASSETS

Goodwill

The increase of "*Goodwill*" is mainly due to the reclassification of goodwill of Media Capital as of June 30, 2018 under "*Assets classified as held for sale*" to "*Goodwill*" amounting to EUR 330,559 thousand, due to the fact that in that date Media Capital has been considered as a continuing operation (*see notes 1a and 8*).

In accordance with IFRS 5, Media Capital, as a cash generating unit, has been valued at June 30, 2018 at its recoverable value, determined as the higher of value in use and the net selling price that would be obtained from the assets associated with the cash-generating unit.

Value in use of Media Capital was calculated on the basis of the estimated future cash flows based on the business plans most recently elaborated by Management. These business plans include the best estimates available of income and costs of Media Capital using industry projections and future expectations.

These projections cover the following five years and include a residual value that is appropriate, applying a constant expected growth rate from 0.5% to 1.5%.

In order to calculate the present value of these flows, they are discounted at a rate that reflects the weighted average cost of capital employed adjusted for the country risk and business risk. The range used for this rate is between 8.5% and 9.5%.

According to the estimates and projections available to the Group's directors, the expected future cash flows attributable of Media Capital permit to recover its net value of the goodwill at June 30, 2018.

Accordingly, the carrying amount of Media Capital is quite similar to value in use. An adverse change in the key assumptions which are individually used for the valuation could lead to future impairment recognition. Specially, a decrease of 1% in revenue growth estimation during the period would suppose an impairment of goodwill of approximately EUR 53 million, an increase of 0.5% in the discount rate would suppose an impairment of goodwill of approximately EUR 18 million and a decrease of 0.5% in the expected growth rate from the fifth year would suppose an impairment of goodwill of approximately EUR 13 million.

The rest of the variation in "*Goodwill*" is due to the effect of changes in exchange rates on goodwill resulting from investments in Editora Moderna, Ltda. and Grupo Latino de Radiodifusión Chile, Ltda, which has led to a reduction in goodwill.

Intangible assets

Additions to the Group's condensed consolidated financial statements under "*Intangible assets*" during the first half of 2018 amounted to EUR 20,366 thousand and are derived mainly from prototypes of the education business (EUR 15,155 thousand). In addition, as of June 30, 2018, the intangible assets of Media Capital of "*Assets classified as held for sale*" have been reclassified to "*Intangible assets*" amounting to EUR 10,048 thousand (*see notes 1a and 8*).

The expense of amortization of intangible assets registered during the first half of 2018 amounts to EUR 17,402 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	
	06/30/18	12/31/17	06/30/18	12/31/17	06/30/18	12/31/17
Loans and receivables	11,524	10,937	2,502	2,690	14,026	13,627
Held to maturity investments	11,253	13,022	19,463	18,315	30,716	31,337
Available-for-sale financial assets	1,380	1,602	2,541	2,335	3,921	3,937
Total	**24,157**	**25,561**	**24,506**	**23,340**	**48,663**	**48,901**

(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 2018, is mainly due to the effect of exchange rate and results participation 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) an addition for the tax credit arising from the limitation on the deductibility of finance costs through to June 2018, amounting to EUR 6,587 thousand, (ii) an addition for the impact of reporting the NOLS and double taxation deduction generated by the tax consolidation group -of which Prisa Individual is the parent company- in the first half of the year, amounting to EUR 3,796 thousand, (iii) an addition of EUR 2,136 thousand as a consequence of the fact that the stake in Media Capital Group has been consolidated as a continuing operation, (iv) a withdrawal for the different tax treatment and accounting recognition of certain provisions posted by Santillana's companies in Latin America, for the net amount of EUR 1,196 thousand and of (v) a retirement for an amount of EUR 2,628 thousand for the accounting of the inspection referred to in the following section.

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 changes to *"Deferred Tax Liabilities"* amounting EUR 4,421 thousand mainly refer to the different accounting and tax recognition criteria for the income resulting from certain institutional sales made by Moderna in Brazil, as well as differences between the accounting and tax valuation of certain assets in Santillana Venezuela.

Tax Inspections

In the 2018 financial year, an agreement was received from the Coordinating Inspector of the Regional Inspection Unit, whereby the proposal for the imposition of a penalty of EUR 1,525 thousand and the new Act that had been signed as a result of the resumption of inspection proceedings dictated by the Regional Economic-Administrative Court of Madrid in relation to the Corporation Tax for 2008 of the tax consolidation group 225/04, of which the Dédalo Group Grupo Gráfico, S.L. was the dominant entity in the aforementioned year, was rendered null and void.

At the date of preparing these explanatory notes, the inspection related to withholdings/income on account of the work and professional income, as well as withholdings on account of the taxation of non-residents for the period 02/2013 to 12/2015 of the consolidated companies that were the subject of the same has been completed, with the initiation of an Act signed in conformity for the amount of EUR 192 thousand, the effect of which has been recognised for accounting purposes.

In addition, the consolidation Measures relating to Corporation Tax and Value Added Tax of the subsidiaries of tax consolidation group 2/91, of which Promotora de Informaciones, S.A. is the parent company and the extinct tax consolidation group 194/09 of which Prisa Radio, S.A. is the parent company, for the Corporation Tax for the years 2012 to 2015, and for the Value Added Tax for the period 02/2013 to 12/2015, have been signed. The impact on the consolidated income statement has involved an expense of EUR 543 thousand.

Other aspects

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 4,842 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) ASSETS CLASSIFIED AS HELD FOR SALE

From June 30, 2018, the assets and liabilities of Vertix and Media Capital are no longer reported as held for sale and Media Capital operations as discontinued operations. They have been consolidated as a continuing operation (*see note 1a*).

According to IFRS 5, the results and cash flows of Media Capital, previously presented as coming from discontinued operations must be reclassified and included in the results and cash flows of the continuing operations, respectively, for all the periods presented. The comparative figures of the consolidated income statement and statement of consolidated cash flows as of June 30, 2017 have not been modified because Media Capital was presented in that period as a continuing operation.

The Company will adjust the Group's consolidated result for 2017 to include the accounting effects of the change in classification of Media Capital, without restating the comparative consolidated balance sheet as of 31st December 2017. The effect of these adjustments is recorded in "*Accumulated profit- From prior years"* and "*Other reserves*", respectively, of the condensed consolidated balance sheet attached to June 30, 2018. The impacts are the following:

- o Reversal of a positive result, in December 2017, due to an intra-group transaction carried out in the past, which materialised with the sale of Media Capital, amounting to EUR 8,127 thousand.
- o Reversal of estimated costs of the sale amounting to EUR 8,007 thousand.

(9) EQUITY

Share capital

On January 1, 2018, the share capital of Prisa amounted to EUR 83,498 thousand, represented by 88,827,363 ordinary shares with a nominal value of EUR 0.94 each.

In February 2018 the Company has increased its share capital, with preemption rights, for an amount of EUR 441,189 thousand, through the issuance and subscription of 469,350,139 new ordinary shares at a nominal value of EUR 0.94 each, of the same class and series as the shares outstanding. The issue price of the shares was EUR 1.20 each (EUR 0.94 nominal value and 0.26 share premium each). Consequently, total effective amount of the capital increase, considering the nominal value of the total shares (EUR 441,189 thousand) and share premium (EUR 122,031 thousand), amounted to EUR 563,220 thousand.

This capital increase is a result of the simultaneous execution of a share capital increase approved by the Extraordinary Shareholders Meeting held on November 15, 2017 amounting to EUR 352,500 thousand and a share capital increase in an amount of EUR 88,689 thousand under the delegation approved by the General Shareholders Meeting held on April 20, 2015.

On June 30, 2018, the share capital of Prisa amounts to EUR 524,687 and is represented by 558,177,502 ordinary shares with a nominal value of EUR 0.94 each. Share capital is fully subscribed and paid up.

No Warrants 2013 have been exercised by their holders, and as of June 30, 2018, are pending of exercise warrants that give right to the subscription of 778,200 shares.

Share premium

As a result of the capital increase described above, the share premium increased in an amount of EUR 122,031 thousand. Expenses related with this capital increase have been accounted as a lower amount of the share premium and amounted to EUR 17,132 thousand.

The issue premium reserve at June 30, 2018 amounts to EUR 199,901 thousand and it is totally unrestricted.

Non-controlling interest

The detail, by company, of the non-controlling interest at June 30, 2018 and December 31, 2017 is as follows:

	Thousands of euros	
	06/30/2018	12/31/2017
Caracol, S.A.	11,176	12,161
Diario As, S.L.	12,147	11,789
GLR Chile, Ltda.	15,386	16,425
Grupo Santillana Educación Global, S.L. and subsidiaries	2,365	7,899
Grupo Media Capital, SGPS, S.A. and subsidiaries	8,531	7,510
Prisa Radio, S.L. and subsidiaries (Spain)	19,860	16,628
Other companies	5,350	6,120
Total	**74,815**	**78,532**

(10) 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	
	06/30/18	12/31/17	06/30/18	12/31/17	06/30/18	12/31/17
Bank borrowings	1,145,197	642,248	85,645	1,002,633	1,230,842	1,644,881
Other financial liabilities	123,150	120,147	11,090	22,630	134,240	142,777
Total	**1,268,347**	**762,395**	**96,735**	**1,025,263**	**1,365,082**	**1,787,658**

Bank borrowings

The most significant balance under Financial liabilities relates to bank borrowings, the detail of which at June 30, 2018 and December 31, 2017, in thousands of euros is as follows:

	06/30/18		12/31/17	
	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)	-	161,080	-	181,471
Profit Participating Loans (PPL)	-	-	-	450,922
Credit facilities, loans, finance leases and other	85,752	53,151	53,925	19,326
Loan arrangement costs	(107)	-	(7,804)	(9,471)
Fair value of financial instruments	-	(25,546)	-	-
Total	**85,645**	**1,145,197**	**1,002,633**	**642,248**

During the first half of 2018, the Company transferred EUR 183,928 thousand of Profit Participating Loans (PPL) to Tranche 3 of the Group's financial debt. Likewise, during the same period, a capitalisable cost interest (PIK) of the Profit Participating Loans (PPL) and Tranche 3 was accrued for EUR 4,526 and EUR 4,161 thousand, respectively.

Refinancing-

On January 22, 2018, the Company signed with all the financial creditors of the *Override Agreement* (agreement to refinance the Group's debt signed in December 2013) an agreement to refinance and modify the terms of Prisa's in forced financial debt. On June 29, 2018, the refinancing agreement (the Refinancing) came into effect, once the agreements reached with all of its creditors were concluded.

The Refinancing agreement was a first repayment of EUR 480,000 thousand made on June 29, 2018, which were intended to amortise debt.

Therefore, as part of the refinancing of its financial debt, Prisa agreed to the renewal of its syndicated loan amounting to EUR 1,117,592 thousand (once the previous repayment was made), which is structured in two sections with the following characteristics:

- The amount of the debt of Tranche 2 is set at EUR 956,512 thousand and the maturity of which is extended to November 2022.
- The amount of the debt of Tranche 3 is set at EUR 161,080 thousand and with a maturity that is extended to December 2022.
- The cost of the debt of Tranches 2 and 3 is referenced to the Euribor plus a negotiated margin, equal for both tranches.
- The payment schedule establishes two partial and obligatory debt repayments on December 31, 2020 and 2021 for EUR 15 and 25 million respectively, as well as additional partial amortisations in 2021 and 2022 conditioned on the cash generation of the Prisa Group.
- The financial creditors have agreed that Tranches 2 and 3 have the same level of senior debt subordination.

- The partial modification of the package of debt guarantees.

The Company's Refinancing agreement contemplates the mechanism of automatic conversion of Tranche 3 debt to Tranche 2 as the aforementioned Tranche 2 is reduced by forced or voluntary amortization debt. On June 30, 2018 the Profit Participating Loans (PPL) have been conversed to Tranche 2 and 3.

Likewise, the Refinancing agreement has involved a restructuring of the debt, which has included a new borrower, Prisa Activos Educativos, S.L.U., which has assumed nominal debt of Prisa for an amount of EUR 685 million, within the framework of a reorganisation of the Prisa Group (*see note 2*), which, among other aspects, allows part of the debt to be allocated in the Education business unit, the main cash generating unit of the Group, in order to meet the payments associated with the debt. The rest of the amount of the debt remains recorded in Prisa.

Compliance with certain financial ratios is established in the financial agreements for the Prisa Group, which must be completed since September 30, 2018.

The refinancing agreement also includes causes for early termination as is customary in this kind of agreement, 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, as well as the no judicial homologation of the Refinancing.

The Company has conducted an analysis of the conditions agreed upon in the framework of the refinancing carried out, concluding that they constitute a substantial modification of the previous conditions, for which reason the original financial liability has been cancelled and a new liability derived from the refinancing has been recognised. The initial recognition of the financial liability has been made at fair value of the debt. A financial income amounting to EUR 25,546 thousand has been recognised in "*Fair value of financial instruments*" in the accompanying consolidated income statement, for the difference between the nominal value of the debt and its fair value at the date it was initially recorded. To determine the fair value a credit risk arising from a report provided by an independent expert regarding the transactions made in the secondary debt market has been used (level 2 variables, estimates based on other observable market methods). The fair value of the Refinancing debt, according to this calculation, amount to EUR 1,092,046 thousand at June 30, 2018. All of the expenses and commissions corresponding to the financial indebtedness have been recognised in "*Finance costs*" of the accompanying consolidated income statement.

Bank borrowings are adjusted in the consolidated balance sheet by the loan origination and arrangement costs and the initial recognition of the debt at its fair value.

Other aspects of debt-

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

Personal guarantees

Tranches 2 and 3 of Prisa's debt, which correspond to the debt refinanced in June 2018, are jointly and severally guaranteed by Prisa and the companies Bidasoa Press, S.L.U., Diario El País, S.L., Distribuciones Aliadas, S.A.U., Grupo de Medios Impresos y Digitales, S.L.U., Norprensa, S.A.U., Prisa Activos Educativos, S.L.U., Prisa Activos Radiófonicos, S.L.U., Prisa Noticias, S.L.U., Prisaprint, S.L.U and Prisa Gestión Financiera, S.L.U.

In addition, Vertix, SGPS, S.A.U. guarantees Tranches 2 and 3 limited to a maximum amount of EUR 600,000 thousand.

Guarantees

As a consequence of the Refinancing of June 2018, Prisa pledged on certain owned bank accounts and, furthermore, Bidasoa Press, S.L.U., Norprensa, S.A.U. and Distribuciones Aliadas, S.A.U. pledged on credit rights derived from certain material contracts, all in guarantee of the aforementioned creditors.

Part of Prisa's 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) and the 100% of the investments (100% share capital) in Prisa Activos Educativos, S.L.U., Prisa Activos Radiofónicos, S.L.U., Prisa Noticias, S.LU., Prisaprint, S.L.U. and Prisa Gestión Financiera, S.L.U. was also pledged, thereby insuring Tranches 2 and 3.

Other aspects

Grupo Santillana Educación Global, S.L. and Grupo Media Capital, SGPS, S.A. assume certain restrictions in relation to financing contracts, thus restricting the actions and operations that can be carried out.

Credit facilities and other debts with credit institutions-

On June 29, 2018, and within the framework of Refinancing the debt, the Company has established a Super Senior credit policy for a maximum amount of up to EUR 86.5 million, of which 50 million have the objective of financing the Company's operating needs. As of June 30, 2018 no drawdowns have been made. The guarantee structure of this Super Senior credit policy is the same as the one mentioned above relating to Tranche 2 and 3 of the debt of Prisa, in such a way that the creditors of said credit policy and those of Tranche 2 and 3 have the same guarantees. Also, Grupo Santillana Educación Global, S.L. and Grupo Media Capital, SGPS, S.A. they also assume certain restrictions in relation to this credit policy.

As of June 30, 2018, debt with credit institutions of Media Capital has been reclassified for an amount of EUR 74,218 thousand under "*Liabilities associated with assets classified as held for sale*" to that of "*Bank borrowings*" of the condensed consolidated balance sheet (*see notes 1a and 8*).

Other financial liabilities

At June 30, 2018, *"Financial liabilities"* mainly include a financial liability of EUR 122,798 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, 2018, under the heading "*Current financial liabilities*" is collected the obligation to pay accrued by the aforementioned dividend in the first half of 2018 for an amount of EUR 11,052 thousand.

(11) LONG-TERM PROVISIONS

Long-term provisions include those for taxes, corresponding to the estimated tax liability amount arising from inspections conducted on Group companies *(see note 7)*, provisions constituted to cover employee compensation and third-party liability provisions for the estimated amount to cover potential claims and litigation against Group companies. In addition, this section also includes Group interests in companies accounted for using the equity method, the net value of which is negative.

The breakdown of "Long-term provisions" at June 30, 2018 and at December 31, 2017, is as follows:

	Thousands of euros	
	06/30/18	12/31/17
For taxes	20,261	16,813
For redundancies	6,982	7,025
For third-party liability and other	14,423	15,169
Total	**41,666**	**39,007**

(12) OPERATING INCOME AND EXPENSES

Operating income

The breakdown of income from the Group's main business lines for the six months ended June 30, 2018 and June 30, 2017 is as follows:

	Thousands of euros	
	06/30/18	06/30/17
Advertising sales and sponsorship	233,395	228,308
Sales of books and training	267,382	322,789
Newspaper and magazine sales	35,219	40,211
Sales of add-ons and collections	6,386	9,391
Sale of audiovisual rights and programs	16,507	13,840
Intermediation services	5,903	3,763
Other services	45,023	25,262
Revenue	**609,815**	**643,564**
Income from non-current assets	14,673	3,348
Other income	4,596	8,112
Other income	**19,269**	**11,460**
Total operating income	**629,084**	**655,024**

The heading "*Income from non-current assets*" includes the result of the sale of certain assets of Santillana USA Publishing Co. Inc., which has generated a profit of EUR 7,378 thousand.

Staff

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

	06/30/18	06/30/17
Men	4,765	4,777
Women	3,947	3,944
Total	**8,712**	**8,721**

Outside services

The detail of *"Outside services"* for the six months ended June 30, 2018 and June 30, 2017 is as follows:

	Thousands of euros	
	06/30/18	06/30/17
Independent professional services	56,814	62,401
Leases and fees	26,876	27,127
Advertising	21,714	23,855
Intellectual property	16,584	17,322
Transport	15,540	17,206
Other outside services	93,170	90,457
Total outside services	**230,698**	**238,368**

(13) FINANCIAL RESULT

The detail of *"Financial result"* for the group at June 30, 2018 and 2017 is as follows:

	Thousands of euros	
	06/30/18	06/30/17
Income from current financial assets	275	387
Income from equity investments	74	63
Fair value of financial instruments	25,546	-
Other finance income	1,239	1,049
Finance income	**27,134**	**1,499**
Interest on debt	(25,220)	(26,942)
Adjustments for inflation	1,793	86
Loan arrangement costs	(42,997)	(6,017)
Other finance costs	(3,116)	(1,665)
Finance costs	**(69,540)**	**(34,538)**
Exchange gains	22,572	16,990
Exchange losses	(24,288)	(10,236)
Exchange differences (net)	**(1,716)**	**6,754**
Financial loss	**(44,122)**	**(26,285)**

In 2018, the financial income recognised in "*Variation in fair value of financial instruments*" corresponds to the difference between the nominal value of the Refinancing debt and its fair value at the initial registration date (*see note 10*).

In 2018, "*Loan arrangement costs*" line includes the expenses and commissions corresponding to the previous financial indebtedness and the 2018 Refinancing expenses (*see note 10*).

(14) BUSINESS SEGMENTS

Segment reporting is structured by geographical segment and business segment of the Group.

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	
	06/30/18	06/30/17
Internal market	225,935	238,881
Exports:	383,880	404,683
a) European Union	86,312	78,744
b) OECD countries	83,298	75,609
c) Other countries	214,270	250,330
Total	**609,815**	**643,564**

The business segments were determined based on the Prisa Group's organizational structure at June 30, 2018 considering the nature of the products and services offered, and the customer segments which they target.

Since June 30, 2018, the Audiovisual segment has been incorporated again as a business segment because Media Capital has been accounted for as a continuing activity, representing almost all of that segment. The comparative information for the first half of 2017 already included the Audiovisual segment. Therefore, as of June 30, 2018, Prisa's operations are divided into four fundamental segments:

- 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, which obtains revenue mainly from the broadcasting of advertising and audiovisual production of the Portuguese subsidiary Grupo Media Capital, SGPS, S.A.

Segment information about these businesses for the six months ended June 30, 2018 and June 30, 2017 is presented below (in thousands of euros):

	Ordinary revenue from external customers		Ordinary revenue between segments		Total ordinary revenue	
	06/30/18	06/30/17	06/30/18	06/30/17	06/30/18	06/30/17
Education	300,675	327,719	660	302	301,335	328,021
Radio	134,030	135,054	1,947	1,714	135,977	136,768
Press	74,316	84,774	25,941	24,280	100,257	109,054
Audiovisual	89,110	80,036	67	218	89,177	80,254
Other	30,953	27,441	619,149	10,731	650,102	38,172
(-) Adjustments and elimination of ordinary income between segments	-	-	(647,764)	(37,245)	(647,764)	(37,245)
Total	**629,084**	**655,024**	**-**	**-**	**629,084**	**655,024**

	Profit from operations	
	06/30/18	06/30/17
Education	27,043	36,446
Radio	11,424	7,658
Press	(4,874)	(5,209)
Audiovisual	9,362	7,658
Other	952,522	5,620
Total profit for the segments reported	**995,747**	**52,173**
(+/-) Elimination of internal profits (between segments)	(979,722)	(24,088)
(+/-) Income tax and/or profits from discontinued operations	22,800	26,053
Total profit before tax from continuing operations	**38,825**	**54,138**

	Assets	
	06/30/18	12/31/17
Education	493,320	544,053
Radio	382,877	390,803
Press	199,522	199,476
Audiovisual (*)	477,047	483,423
Other	352,617	305,324
Total	**1,905,383**	**1,923,079**

(*) As of December 31, 2017, the assets of Media Capital have been included, for comparative purposes, in the segment Audiovisual, which in 2017 were included in the segment Other.

(15) RELATED PARTY TRANSACTIONS

The transactions performed with related parties in the six months ended June 30, 2018 and in 2017 were as follows (in thousands of euros):

	06/30/2018			06/30/2017		
	Directors and executives	Group employees, companies or entities	Significant shareholders	Directors and executives	Group employees, companies or entities	Significant shareholders
Finance expenses	-	163	10,936	-	672	8,650
Services received	-	113	4,436	-	230	4,920
Leases	-	324	1,119	-	263	1,445
Purchase of goods	-	-	45	-	-	2
Other expenses	4,294	32	140	7,810	79	1,034
Total expenses	**4,294**	**632**	**16,676**	**7,810**	**1,244**	**16,051**
Finance income	-	269	1	-	24	-
Provision of services	-	1,220	1,232	-	1,413	1,590
Leases	-	27	16	-	45	15
Other revenue	-	-	143	-	26	47
Total revenue	**-**	**1,516**	**1,392**	**-**	**1,508**	**1,652**

All related party transactions have taken place under market conditions.

Transactions with directors and executives

The aggregate amount of EUR 4,294 thousand corresponded to the remuneration received by directors and executives as detailed in note 16.

Transactions between Group employees, companies or entities-

The aggregate amount of EUR 632 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 1,220 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. and the income for sale of advertising to Sistema Radiópolis, S.A. de C.V.

Transactions between with significant shareholders -

The aggregate amount of EUR 16,676 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 finance costs derived from credits granted by major shareholders to Prisa Group companies, mainly the Refinancing expenses corresponding to HSBC Holding, PLC, amounting to EUR 3,952 thousand *(see note 10).*

Meanwhile, the aggregate amount of EUR 1,392 thousand mainly consists of income of Prisa Group companies for advertising services with Banco Santander, S.A. and Telefónica, S.A.

The detail of other transactions performed with related parties in the six months ended June 30, 2018 and in 2017 is as follows (in thousands of euros):

	Group employees, companies or entities	Significant shareholders	Significant shareholders	Other related parties
Financing agreements: loans granted	832	-	-	-
Financing agreements: loans received	-	378,897	-	-
Other transactions	-	8,804	1,339	1,000

Transactions between with significant shareholders -

The aggregate amount of EUR 378,897 thousand includes the loans granted by Banco Santander, S.A. and HSBC Holding, PLC within the framework of the Refinancing *(see note 10).*

The aggregate amount of EUR 8,804 thousand in "*Other transactions*" includes the expenses of the capital increase corresponding to Banco Santander, S.A. registered in the heading "*Other reserves*" in the accompanying condensed consolidated balance sheet *(see note 9).*

In addition, this capital increase has been subscribed, among others, by the following significant shareholders of the Company in February 2018 (directly or indirectly through other companies of their groups):

- Rucandio, S.A.
- Amber Capital UK LLP (see information regarding director Joseph Oughourlian in the following table)
- International Media Group, S.A.R.L (see information regarding director consejero Shk. Dr. Khalid bin Thani bin Abdullah Al-Thani in the following table)
- GHO Networks, S.A. de C.V./ Consorcio Transportista Occher, S.A. de C.V.
- Telefónica, S.A.
- HSBC Holdings, PLC
- Banco Santander

Likewise and according to information published on the website of the Comisión Nacional del Mercado de Valores ("CNMV"), the capital increase was suscribed by the following PRISA directors:

Directors' Name	Number of Direct Voting Rights suscribed	Number of Indirect Voting Rights suscribed
Manuel Mirat Santiago	65,879	0
Manuel Polanco Moreno	45,580	126,405 (through Olnacasco, S.L.)
Francisco Javier Monzón de Cáceres	60,049	0
Joseph Oughourlian	-	131,022,714 (through Amber Capital UK LLP)
Francisco Javier Gómez Navarro- Navarrete	7,102	0
Shk. Dr. Khalid bin Thani bin Abdullah Al-Thani	-	33,920,000 (through International Media Group, S.A.R.L.)

"Other transactions" with significant shareholders at June 30, 2017 included the interests accrued in the period by the issue of the mandatory convertible bond into shares.

Transactions between with other related parties -

"Other transactions" with other related parties at June 30, 2017 included 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.

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

In the six months ended June 30, 2018 and 2017, the consolidated companies registered the following amounts in respect of remuneration to Prisa's Board members and executives:

	Thousands of euros	
	06/30/18	06/30/17
Fixed remuneration	403	1,107
Variable remuneration	141	1,169
Attendance fees	0	222
Bylaw-stipulated directors' emoluments	644	767
Other	5	1,910
Total remuneration received by Board members	**1,193**	**5,175**
Total remuneration received by executives	**3,101**	**2,635**

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 and consequently it corresponds to the accounting provisions registered in the profit and loss account.

Remuneration of the Directors:

Regarding the first half of 2018:

i) The overall compensation of the Board of Directors includes the remuneration of Mr. John Paton, who ceased as directors in April 2018.

ii) Remuneration of the non executive Chairman, Mr. Manuel Polanco Moreno:

Effective January 1, 2018, Mr. Manuel Polanco Moreno has ceased as deputy executive chairman and is non-executive chairman of Prisa.

The Board approved this appointment (December 2017), acknowledging Mr. Polanco's entitlement to compensation due to the termination of the service-level agreement with the Company, equivalent to fifteen months of his last fixed and variable remuneration and totalling EUR 905 thousand which have been paid in 2018 but that are not included in the previous table since the accounting expense was recorded in the 2017 profit and loss account.

In accordance with the Directors 'Remuneration Policy for the period 2018-2020, which was approved at the Ordinary Shareholders' Meeting held on April 25, 2018 and which is applicable with retroactive effect from January 1, 2018 (the "Remuneration Policy"), Mr Manuel Polanco Moreno shall be entitled to receive a gross fixed annual remuneration of EUR 500 thousand in his capacity as a director and as the non-executive Board Chairman, which shall be paid in cash on prorated monthly basis. The remuneration corresponding to the first semester of 2018, that is, EUR 250 thousand euros, has been recorded as follows: until the approval of the Remuneration Policy, Mr. Manuel Polanco has continued to receive the remuneration that corresponded to him for the mercantile service lease contract that he had with the Company, for a total amount of EUR 153 thousand euros which are registered within "fixed remuneration"; the difference of up to EUR 250 thousand, that is, EUR 97 thousand, are registered under " Bylaw-stipulated directors' emoluments ".

iii) 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 CEO Mr Manuel Mirat, sole executive director of the Company, if management objectives are achieved. However, since this compensation is subject to achievement of the management objectives at the end of the year 2018, 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 2017 bonus paid in April 2018 to the CEO.

It is noted that at the Ordinary Shareholders' Meeting held on April 25, 2018, it was approved a Medium Term Incentive Plan for the period falling between 2018 and 2020, consisting of the award of Company shares linked to stock market value and to the performance of certain objectives, targeted at the CEO of Prisa and certain managers, who may receive a certain number of ordinary shares of the Company following a reference period of 3 years, provided that certain predefined requirements are met. In the near future, the Company will assign a certain number of restricted stock units ("Restricted Stock Units" or "RSUs") to each beneficiary, and will specify the objectives (other than the quotation) that must be met in order to benefit from the incentive, which will serve as a reference to determine the final number of shares to be delivered. In the first half of 2018 none accounting expenses have been registered for this item, because the objectives of the Plan have not been specified and the restricted stock units have not been allocated to all the beneficiaries.

iv) Attendance fees: In the Remuneration Policy, the attendance fees for the Board and the Committees have been eliminated, effective January 1, 2018.

v) No other credits, advances or loans occurred, nor were pension obligations incurred, in respect of the Board of Directors during the first half of 2018.

Remuneration of Senior Management:

Regarding the first half of 2018:

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. Xavier Pujol, Mr. Guillermo de Juanes, Mr. Augusto Delkader, Mr. Jorge Ribera, Ms. Marta Bretos, Mr. Miguel Angel Cayuela, Mr. Pedro García Guillén, Mr. Alejandro Martinez Peón, Ms Rosa Cullel and Ms. Virginia Fernández.

It has been included the remuneration of Mr. Augusto Delkader, Mr. Jorge Ribera, Ms Marta Bretos, Mr Pedro García Guillén and Mr Alejandro Martinez Peón from their appointment, in 2018, as Chief Editor, Chief of Communication and Institutional Relations, Head of Talent Management, CEO of Prisa Radio, and Ceo of Prisa Noticias, respectively.

The remunerations of Ms Bárbara Manrique de Lara, Mr. Ignacio Soto and Mr Andrés Cardó, until they ceased in 2018 as Chief of Communication and Institutional Relations, Chief Revenue Officer, and CEO of Prisa Radio, respectively, are 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 is the accounting reflection of the overall compensation of the managers. The total aggregate remuneration corresponding to the first semester of 2017 amounted to EUR 2,635 thousand and that corresponding to the first semester of 2018 amounts to EUR 3,101 thousand 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 2018, 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 2017 bonus paid in April 2018 of those who were members of senior management at December 31, 2017, which includes the adjustments in the bonus corresponding to Mr. Manuel Mirat, CEO of Prisa, for his responsibilities as CEO of Prisa Noticias in 2017.

- EUR 1,017 thousand in respect of the post-contractual non-competition agreement and compensation for termination of contracts of senior management in 2018.

iii) It is noted that at the Ordinary Shareholders' Meeting held on April 25, 2018, it was approved a Medium Term Incentive Plan for the period falling between 2018 and 2020, consisting of the award of Company shares linked to stock market value and to the performance of certain objectives, targeted at the CEO of Prisa and certain managers, who may receive a certain number of ordinary shares of the Company following a reference period of 3 years, provided that certain predefined requirements are met. In the near future, the Company will assign a certain number of restricted stock units ("Restricted Stock Units" or "RSUs") to each beneficiary, and will specify the objectives (other than the quotation) that must be met in order to benefit from the incentive, which will serve as a reference to determine the final number of shares to be delivered. In the first half of 2018 none accounting expenses have been registered for this item, because the objectives of the Plan have not been specified and the restricted stock units have not been allocated to all the beneficiaries.

iv) Finally, it is noted that Mr. Fernando Martínez Albacete, the representative of the director Amber Capital, was a member of Prisa's senior management until June 2017 and, due to the termination of his contract with the Company, he has received amounts in the form of non-competition agreement, until May 2018. These amounts are not included in the tables above, since they do not refer to payments received for having the status of director or member of senior management in 2018.

(17) GUARANTEE COMMITMENTS TO THIRD PARTIES

At June 30, 2018, Prisa had furnished bank guarantees amounting to EUR 61,853 thousand. For this amount, EUR 50,000 thousand correspond to the litigation for football rights of Audiovisual Sport, S.L.

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

(18) ONGOING LITIGATIONS AND CLAIMS

A) Audiovisual Sport

(i) Mediapro vs. AVS (Damages from the injunctive relief)

On July 24, 2006 Audiovisual Sport, S.L. ("AVS"), Sogecable, S.A.U. (now Prisa), TVC Multimedia, S.L. and Mediaproducción, S.L. ("Mediapro") reached an agreement for the exploitation of the Football League rights for the 2006/07 season and subsequent seasons. The main object of this agreement was to maintain the televised football exploitation model that had allowed, under AVS' coordination, the broadcasting of all League matches in a peaceful, stable and orderly manner since 1997.

Following Mediapro's repeated breaches of the agreement from the moment immediately following its signature, and its failure to pay the amounts owed to AVS, the latter filed a lawsuit against Mediapro on July 3, 2007, which was extended on July 31, 2007.

On September 28, 2007 Mediapro replied to the claim and issued a counter-claim against the other signatories of the agreement of July 24, 2006, claiming that it was void.

On October 8, 2007 Madrid Court of First Instance no. 36 granted the interim measures (injunctive relief) requested by AVS against Mediapro, holding that the First Division Clubs' rights relating to the 2007/2008 season to which the application for interim measures related belonged to AVS, and also resolving that "Mediapro be forbidden, during the 2007/08 football season, to make any disposal of exploitation of the audiovisual rights assigned to AVS, except for any legitimate use of said rights further to the legal relationship arising from the Agreement of July 24, 2006".

In compliance with the said order, AVS submitted to the Court a guarantee for the sum of EUR 50 million to secure compliance with its contractual obligations. The order of October 8, 2007 was revoked by the Provincial Court of Madrid in July 2008, and the above mentioned guarantee remains at the disposal of the Court of First Instance until the end of the proceedings for the settlement of damages.

On March 15, 2010, the Court of First Instance No. 36 of Madrid gave a judgment estimating the demand of AVS, condemning Mediapro to deliver the audiovisual rights of the clubs -belonging to AVS-, and also to pay the sum of EUR 104.6 million. After different judgments, which were appealed by both parties in the framework of this proceeding, on January 9, 2015, the Supreme Court of Spain *(Tribunal Supremo)* issued a judgment declaring the agreement of July 24, 2006 null and void.

As a consequence of such Supreme Court judgement, on September 14, 2015 Mediapro requested that the suspension be lifted and that the proceeding in relation to the interim measures of October 8, 2007 continue. With a judicial order of September 28, 2015, the Court agreed to proceed with the proceedings and, considering the Supreme Court ruling, requested a court-appointed appraiser to determine the amount of possible damages arising from the adoption of the interim measures, granting a term until February 2017 in which to do so. Appraiser quantified the damages in an amount of EUR 65,096 thousand.

On December 5, 2017, Madrid Court of First Instance no. 36 gave a ruling rejecting Mediapro's claim and fully accepting AVS's objections. On February 2018, Mediapro filed an appeal against such ruling, which has been objected by AVS.

As a guarantee in that proceeding, the AVS's EUR 50,000 thousand security remains in deposit at the Court.

(ii) AVS vs. Mediapro (Unjust enrichment)

Afterwards, on June 20, 2016 AVS filed a complaint against Mediapro seeking compensation for damages sustained by AVS as a result of Mediapro's unlawful use of its audiovisual rights during the 2007-08 and 2008-09 seasons. Given the fact that the agreement of July 24, 2006 was declared null and void by the Supreme Court and given that during the 2007-08 and 2008-09 seasons Mediapro and AVS commercialized and exploited the audiovisual rights of certain First and Second Division soccer clubs that the clubs had assigned individually and exclusively to either AVS or Mediapro, AVS has filed a complaint in the Barcelona courts seeking to recover from Mediapro the net profits unduly obtained by Mediapro for the exploitation of the audiovisual rights of those clubs whose rights were held by AVS, minus the net profit unduly obtained by AVS from exploitation of the rights of the clubs held by Mediapro. The complaint was accompanied by an expert opinion concluding that the difference between the net profits unduly obtained by AVS and Mediapro shows a balance in AVS's favor in the amount of EUR 85,117 thousands, that is the amount that AVS is seeking for in the complaint filed on June 20, 2016. Mediapro duly answered the complaint, raising a *res judicata* defense as its principal procedural position and presenting an expert opinion to counter the conclusions of the expert opinion presented by AVS, and Barcelona Court of First Instance No. 37 scheduled the previous hearing for January 29, 2017, and the trial took place on June 7, 2017. On July 3, the judgment of the Court of First Instance No. 37 of Barcelona notified its judgment to the parties, which rejected AVS's claim, making application of the *res judicata* effect to the rest of the 2007/08 season and the entire 2008/09 season, and not entering to assess the economic impact of the use of third-party audiovisual rights. AVS has filed an appeal before the Provincial Court of Barcelona *(Audiencia Provincial)* requesting the revocation of this judgement and the full acceptance of its claim. This appeal is still pending resolution.

(iii) Mediapro vs. AVS (Damages from Mediapro's insolvency)

On the other hand, a complaint was filed on May 12, 2016 at the Civil Trial Court in Colmenar Viejo in which Mediapro and Imagina Media Audiovisual (the "Plaintiffs") have petitioned the court to find AVS and DTS Distribuidora de Televisión Digital, S.A. ("DTS") –an company out of PRISA Group- jointly and severally liable for payment of the compensation sought (EUR 89,739 thousands). Plaintiffs allege that Mediapro was forced into proceedings in which it was declared insolvent, having been deliberately placed in a situation of imminent insolvency given that on June 16, 2010 (i) Mediapro was informed that AVS had petitioned the court for the provisional enforcement of the judgment of March 15, 2010 ordering Mediapro to pay AVS EUR 104,993 thousand and (ii) DTS sent Mediapro a letter announcing that it would not continue to comply with the June 4, 2009 contract for the exploitation of audiovisual rights for the League and Cup soccer matches during the 2009-2010, 2010-2011 and 2011-2012 seasons if Mediapro did not provide a bond guaranteeing that if Mediapro failed to fulfill its obligations, Mediapro would proceed to reimburse DTS for the amounts already delivered. According to the Plaintiffs, the petition for execution of judgment, together with DTS's requirement undermined the basis on which the financial institutions had been willing to provide Mediapro with the amounts required to satisfy the compensation demanded by AVS.

Given its imminent insolvency due to the impossibility of paying the compensation and being unable to negotiation an agreement with its financial institutions, on June 16, 2010 Mediapro commenced proceedings to be declared insolvent. In view of the above, the Plaintiffs consider that AVS and DTS intentionally provoked Mediapro's insolvency and (based on an expert opinion provided) deems the damages incurred by Mediapro and the Imagina Group amount to EUR 89,739 thousands, as a consequence of the declared insolvency.

Both DTS and AVS duly answered Mediapro's complaint, and their pleadings were declared admissible at the First Instance Court No. 82 of Madrid. The trial took place by two sessions on January 23 and February 5, 2018. On February 27, 2018 the Court notified its judgement –dated on February 22, 2018-, which fully rejecting the Plaintiffs' claims and ordering the Plaintiffs' to pay the costs of the proceeding. The Plaintiffs have filed an appeal against this ruling, which has been objected by both AVS and DTS. This appeal is pending at the Provincial Court of Madrid (*Audiencia Provincial)*.

The Group's Directors and internal and external legal advisors do not believe that resolution of these litigations will entail any relevant liabilities not registered by the Group.

B) Santillana

On October 5, 2017 the National Markets and Competition Commission ("CNMC") issued a resolution, initiating an administrative proceedings against Santillana Education, SL, then extended to other companies within Santillana Group, within the framework of the administrative file initiated against the educational-book publishers national association (ANELE). This proceeding is based in the CNMC's understanding that there are indications of two possible infractions to Article 1 of the Spanish Competition Act *(Ley de Defensa de la Competencia)* and to Article 101 Treaty on the Functioning of the European Union (TFEU):

- Agreements or concerted practices between the competing publishers for the sharing the Spanish non-university textbooks market and the setting of certain commercial conditions therein, as well as the exchange of sensitive commercial information in relation to the commercial offers that they make themselves and their direct competitors to the educational entities.

- Agreements or concerted practices between competing publishers with the objective of fixing prices and other commercial conditions related to certain publishers' products, the so-called digital textbook.

The Group's Directors and internal and external legal advisors consider that any liability and/or fine could arise from these proceedings, but determination of its amount is not possible at the moment. Nevertheless, the calculation base of a potential fine would be the income obtained by Santillana Group in Spain and not the income obtained globally.

In addition, the Group is involved in other litigations for smaller amounts. The Directors and internal and external advisors do not consider that any relevant liabilities will arise from such litigations.

(19) EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred since June 30, 2018 until the date of approval of these condensed interim consolidated financial

(20) 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, 2018

PROMOTORA DE INFORMACIONES, S.A. (PRISA)

AND SUBSIDIARIES

CONDENSED CONSOLIDATED DIRECTOR'S REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2018

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 2018 and 2017 (in millions of euros):

	06.30.2018					
	Education	Radio	Press	Audiovisual	Others	Prisa Group
PROFIT FROM OPERATIONS	**63.8**	**16.8**	**(3.8)**	**15.3**	**(11.6)**	**80.5**
Depreciations and amortisation charge	20.1	4.0	2.0	3.0	0.6	29.7
Change in operating allowances	1.7	0.9	1.0	0.3	0.1	4.0
Impairment of assets	0.3	0.0	0.0	0.1	0.0	0.4
EBITDA	**85.9**	**21.7**	**(0.8)**	**18.7**	**(10.9)**	**114.6**

	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**

The **evolution of the Consolidated Group** in the first half of 2018 is as follows:

- Group operating income amounted to EUR 629.1 million (-4.0%) and EBITDA to EUR 114.6 million (-3.3%). Both figures have been negatively impacted by exchange rate performance and the effect of IFRS 15 (positive effect in revenues and negative effect in EBITDA) and positively by the sale of assets of Santillana in the United States.

  Operating income and EBITDA of the Group adjusted in local currency and discounting the temporary impact of IFRS 15 and the sale of assets of Santillana in the United States grew by 3.0% and 8% respectively.

- Key highlights of the first half of 2018 include:

  - In Education, a sound performance of education campaigns with advance of public sales in Brazil, with a negative foreign exchange impact mainly from the performance of currencies in Argentina and Brazil and temporarily affected by the entry into force of IFRS15. Growth in adjusted revenues of 5.9%, discounting the foreign exchange effect and impact of IFRS 15.

  - Radio showed an operating improvement in EBITDA of 18.4% driven by good performance in Spain (EBITDA growth of 8.4%) and Latin America (EBITDA growth of 27.2%).

  - Growth in digital press advertising. Costs continue to decline.

  - Media Capital improved its operating result by 12% with a 3% increase in advertising revenue.

  - The exchange rate performance had a negative impact in the first half of 2018: EUR -55.1 million in income and EUR -18.1 million in EBITDA.

  - The implementation of the announced Group efficiency plan generates savings in expenses of EUR 19.8 million in the first half of 2018 (EUR 8.4 million in Q1). The impact on EBITDA is EUR 15.7 million (EUR 6.8 million in Q1).

Business performance for the first half of 2018 was as follows:

- In the **Education** division, operating income came in at EUR 301.3 million (below the figure of 2017 by -8.1%). Without the negative currency effect (EUR -50.3 million), the effect of IFRS 15 (EUR -3.1 million) and the sale of Santillana assets in the United States (EUR +7.4 million), revenues increased with respect to 2017 (+5.9%). EBITDA reached EUR 85.9 million (-6.6%). If the currency effect is removed (EUR -18.6 million), the effect of IFRS 15 (EUR -2.7 million) and the sale of Santillana assets in the United States (EUR +7.4 million), EBITDA grew 9% compared to 2017.

  - In the first half of the year, the campaigns in the southern area closed almost entirely and as a whole their performance was in line with what was planned. In the first half of 2018, there was an advance of replacement institutional sales in Brazil that occurred in the third quarter 2017. This advance has compensated for the absence of extraordinary institutional sales in Brazil.

  - The campaigns in the northern area (Spain and Mexico mainly) have more impact in the third quarter. The figures recorded so far show the start of the campaign with a delay in Spain compared to the same period of 2017 and good performance in Mexico that grows in local currency by 25%.

  - The digital education systems (UNO and Compartir) continued to expand in Latin America, with an 8% growth in the number of students to exceed one million.

- In the **Radio** division, operating income reached EUR 136 million, practically in line with last year (-0.6%) and EBITDA reached EUR 21.7 million (+18.6%) due to the better performance both in Spain and Latin America. At a constant exchange rate, revenues grew 2.5% while EBITDA grew 17.6%.

  - Prisa Radio advertising in Spain grew in the first half by 3.5%. Local advertising showed a growth of 2.9% while national advertising recorded a growth of 3.9%, partly due to the effect of the World Cup.

  - In Latin America, revenues grew by +7.4% in local currency (-1.9% in euros due to the currencies being devalued). The sound performance in constant currency of Colombia and Chile stands out, whose revenues grew respectively by 11.4% and 8.1%.

  - The exchange rate effect has hardly affected EBITDA in the first half (EUR +0.1 million), but revenues have been negatively impacted by exchange rate performance (EUR -4.1 million). Discounting this exchange rate effect, revenues grew by 2.5%.

  - According to the last EGM, Prisa Radio in Spain maintained its leadership for both generalist and music radio.

- In the Prisa Noticias division, operating income came in at EUR 100.3 million (-8.1%). Traditional advertising, circulation and promotions decreased. The rise in digital advertising and cost savings partially offset these impacts. EBITDA was negative (EUR -0.8 million) mainly due to the higher indemnities paid.

  - Circulation revenue continued to see a 12% decrease.

  - Promotional revenues decreased by 32%, although the result is positive and in line with 2017.

  - Advertising revenues in the period decreased by -2.5%. Digital advertising increased by 9% (representing 46% of the total advertising revenue of the division), partly thanks to the effect of the World Cup and traditional advertising declined by 12%.

  - An average of 129 million unique visitors was recorded in the first half of 2018 (+22%).

  - El País strengthened its position as the top Spanish-language newspaper in world media rankings and As maintained its digital leadership in America.

- **Media Capital** operating income reached EUR 86.9 million (+9.9%) and EBITDA amounted to EUR 19.6 million (+12.3%). The effect of IFRS 15 has meant income and expenses have increased by the same amount (EUR 5 million). Excluding this impact, revenues grew by 3.7%.

- Advertising revenues in the first half of 2018 grew by 2.6%.

- TVI maintained its 24-hour and prime time leadership, hitting average daily audiences of 25% and 27% respectively for total Television audiences.

- Media Capital radio maintained its number one position in listeners (Radio Comercial had a 26% share).

Prisa defines the **exchange rate effect** as the difference between the financial magnitude converted using the exchange rate of the current fiscal year and the same financial magnitude converted using the exchange rate on the previous fiscal year. The following table shows the exchange rate effect on operating income and EBITDA for the Education and Radio business and for the Prisa Group (in millions of euros):

	2018	Exchange rate effect	2018 excluding exchange rate effect	2017	Change excluding exchange rate effect	Change (%) excluding exchange rate effect
Education (*)						
Operating income	301.3	-50.3	351.7	328.0	23.6	7.2%
EBITDA	85.9	-18.6	104.4	91.9	12.5	13.6%
Radio						
Operating income	136.0	-4.1	140.1	136.8	3.4	2.5%
EBITDA	21.7	0.1	21.6	18.3	3.2	17.6%
Prisa Group						
Operating income	629.1	-55.1	684.2	576.2	108.0	18.7%
EBITDA	114.6	-18.1	132.7	100.8	31.9	31.6%

(*) Excluding the exchange rate effect of Venezuela.

The Group's **Net bank debt** reduced by EUR 449.1 million during the first half of 2018 and stood at EUR 972.5 million at June 30, 2018, after the debt amortisation was carried out with the funds coming from the capital increase of February 2018 and once the refinancing came into effect.

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

The following table shows the composition of this indicator at June 30, 2018 and at December 31, 2017:

	Million of euros	
	06.30.18	12.31.17
Non-current bank borrowings	1,145.2	642.2
Current bank borrowings	85.6	1,002.6
Loan arrangement costs	0.1	17.3
Fair value of financial instruments	25.5	-
Current financial assets	(24.4)	(23.3)
Cash and cash equivalents	(259.5)	(217.2)
NET BANK DEBT	**972.5**	**1,421.6**

2. PRINCIPAL RISKS ASSOCIATED WITH THE BUSINESS

The businesses of Group subsidiaries and, therefore, their operation and earnings are subject to risks that may be grouped into the following categories:

- Risks relating to the financial and equity situation.
- Strategic and operational risks

Risks relating to the financial and equity situation.

Financing risk-

The Group's financial obligations are set out in note 10 "*Financial liabilities*" in the attached explanatory notes.

As of June 30, 2018, the Group's net bank debt level stood at EUR 972.5 million and represents a series of risks:

- It is more exposed to the economic cycle and market performance, especially in those businesses with a higher exposure to economic cycles.
- It requires part of the cash flow from operations to be put aside to cover payment obligations, interest payments and amortisation of the debt principal, hindering the capacity to dedicate these cash flows to cover working capital, investments and finance for future transactions.
- The Group is exposed to interest rate fluctuations in loans financed at variable interest rates.
- It limits the ability to adapt to changes in the markets.
- It places the Group at a disadvantage with regard to less indebted competitors.

As described in the Prisa explanatory notes for the first half of 2018, on January 22, 2018, the Company signed with all the financial creditors of the *Override Agreement* (agreement to refinance the Group's debt signed in December 2013) an agreement to refinance and modify the terms of Prisa's current financial debt. On June 29, 2018, the refinancing agreement came into effect, once the agreements reached with all of its creditors were concluded. On this same date, and as one of the preconditions for the agreement to come into force, the Company cancelled a debt of EUR 480,000 thousand with the proceeds from the cash capital increase described above and available cash from the Company. The Refinancing agreement contemplates the extension of the debt maturity to November and December 2022 and no amortisation obligation until December 2020.

In this regard, the Refinancing agreement has enabled the maturity schedule of bank debt to be adapted to the cash generation profile of the Group's businesses, allowing the maturity of the 2018 and 2019 debt to be extended to 2022. In addition, the level of net indebtedness has been reduced from EUR 1,421.6 million at December 31, 2017 to EUR 972.5 million at June 30, 2018.

In addition, the contracts governing Prisa's debt terms stipulate requirements and commitments for compliance with specific leverage and financial ratios (*covenants*). These contracts also include provisions on cross-default, which could cause, if the breach exceeds certain amounts, the early maturity and resolution of the contract in question, as well as the *Override Agreement*.

The refinancing agreement reduced the Group's exposure to the above risks although the debt level remains high.

Media Capital Sale Transaction-

The Prisa Board of Directors accepted a binding offer put forward by Altice NV on July 13, 2017 for the sale of Vertix SGPS, S.A. ('Vertix'), belonging to Grupo Media Capital, SGPS, S.A. ("Media Capital") the operation was subject to the mandatory authorisation of the Portuguese competition authorities. On June 18, 2018, the termination of the contract for the sale of Media Capital signed between Prisa and Altice occurred as a consequence of the failure to comply with the deadline agreed by both parties for the last of the conditions precedents that were pending compliance, concerning Altice obtaining the mandatory authorisation of the operation by the Portuguese Competition Authority (*see note 1a of the explanatory notes of Prisa*).

The non-execution of the sale of Media Capital negatively affected the Group's net indebtedness as of June 30, 2018, insofar as the funds that were to be obtained from its sale could not be used to amortise financial debt as planned. However, this fact has not affected the effectiveness of the refinancing contract for Prisa's debt because it contemplated this possibility.

As of June 30, 2018, the assets and liabilities of Vertix and Media Capital Group are no longer reported as held for sale and Media Capital operations as discontinued operations. They have been consolidated as a continuing operation, without significantly impacting the Group's income statement or net equity at June 30, 2018.

Equity situation of the Group's Parent Company-

As of June 30, 2018, the Parent Company's equity was EUR 583,641 thousand. This amount is greater than two thirds of the capital stock, which is why it is in a situation of equity balance.

The re-establishment of the Parent Company's equity balance as of June 30, 2018 as compared to December 31, 2017 is due to the measures and strategic actions carried out by the Parent Company's Directors, in order to strengthen and optimise the financial structure and the Company's shareholder equity, including the capital increase by EUR 563.2 million subscribed and paid in February 2018 and the entry into force on June 29, 2018 of the refinancing agreement.

Credit and liquidity risk-

The adverse macroeconomic situation with major declines in advertising and circulation has had a negative impact on the Group's ability to generate cash flow over recent years, mainly in Spain. Businesses which rely heavily on advertising have a high percentage of fixed costs, and any decline in advertising revenues has major implications for margins and the cash position, making it difficult to implement additional measures to improve Group operating efficiency. As of June 30, 2018, advertising revenue represented 37.1% of Group operating income.

Likewise, the nature of the Education business means that there are concentrated periods of collections around certain dates, mainly during the final months of each year. The aforementioned creates seasonality in Santillana's cash flow. While the seasonality of the Group's cash flow is not significant, so far as the flows coming from the various business units largely compensate each other and thereby mitigating the seasonality effect, the aforementioned could lead to certain cash tensions during the periods in which the collections are structurally lower.

In terms of the commercial credit risk, the Group assesses the age of the debt and constantly monitors the management of receivables and processing of arrears. The Group exhaustively monitors receivables and payables associated with all its activities, as well the maturities of financial and commercial debt and repeatedly analyses other financing methods in the aim of covering planned cash requirements in the short, medium and long-term.

Non-controlling interests in cash generating units-

The Group has significant non-controlling interests in cash generating units including education and radio businesses. Likewise, Santillana is obliged to pay on an annual basis its non-controlling shareholders (25% of share capital) a preferential set fixed dividend to the Prisa dividend.

Exposure to interest rate hedges-

The Group is exposed to changes in interest rates as around 94.49% of its bank borrowings bear interest at floating rates. The Group currently has no derivative contracts for interest rates.

Exposure to exchange rate hedges-

The Group is exposed to fluctuations in exchange rates mainly due to financial investments made in stakes in American companies, as well as revenue and profits from said investments.

In this context, and in the aim of mitigating this risk, if there are credit lines available the Group adheres to the practice of formalizing hedge contracts for exchange rate variations (mainly forex insurance, 'forwards' and options on currencies) based on its monthly analyzed forecasts and budgets, in order to reduce volatility in operations, results and cash flows of subsidiaries operating overseas.

Tax risks-

The Group's tax risks are related to possibly different interpretations of the rules that the relevant tax authorities may make, as well as to the changes in tax rules in the different countries in which the Group operates.

As of June 30, 2018, the consolidated Group had active tax credits amounting to EUR 342.0 million; of these, EUR 299 million corresponded to the tax consolidation group whose parent company is Prisa.

In accordance with current Group business plans, the Board of Directors deem recovery of active tax credits according to the criteria established in the accounting regulation likely, although there is the risk that the ability to generate positive tax bases may not suffice to recover the active tax credits arising from the negative tax bases from previous financial years, from limiting the deductible nature of financial expenses and amortizations, as well as from tax deductions.

Intangible assets and goodwill-

As of June 30, 2018, the company had intangible assets recorded on its consolidated balance sheet amounting to EUR 113.9 million and goodwill of EUR 489.2 million. The analysis of the value of these assets and goodwill used estimates made to date, based on the best available information. It is possible that events which could occur in the future make it necessary to modify these estimates down. In this event, the impact of these new estimates in valuing intangible assets and goodwill will be registered on the future consolidated income statement.

Strategic and operational risks

Macroeconomic risks-

The evolution in macroeconomic variables affect to the Group business performance in Spain and America.

During the first half 2018, 63% of Group operating income came from international markets. Nevertheless, Spain continues to be the Group's main geographical market (representing 37% of Group operating income).

The main consumer figures in Spain saw major declines in the past that have affected, and may continue to do so if growth comes in below forecasts, spending by Group customers on its products and services, including advertisers and other clients of Prisa content offers.

With regard to Prisa's business and investments in Latin America, we should state that it is the highest risk region among developing nations due to its links with the United States and China, especially when it comes to Brazil and Chile, where the economy is dependent on commodity exports to China and the United States, among others.

Macroeconomic declines could negatively affect the Group's position in terms of earnings and cash generation, as well as the value of Group assets.

Decline in the advertising market-

An important part of Prisa's operating income comes from the advertising market, mainly in its press and radio businesses. As of June 30, 2018, advertising revenue represented 37.1% of Group operating income. Spending by advertisers tends to be cyclical and reflects the general economic situation and outlook.

If macroeconomic figures worsen in the countries where the Group operates (especially GDP), the spending outlook for advertisers could be negatively impacted. Given the large fixed expenses component linked to businesses which rely heavily on advertising, any decline in advertising revenues directly affects operating profits and, therefore, the Group's ability to generate cash.

Changes occurring to the tradition media business-

Press revenues from the sale of copies and subscriptions continue to be negatively impacted by the growth of alternative distribution media, including free news websites and other content.

Along the same lines, the proliferation of alternative digital communication, including social networks or news aggregators, has had a notable impact on the options available to consumers, thus resulting in a fragmentation of the audience. Moreover, the proliferation of these new players means an increase in the inventory of digital advertising space available to advertisers, and which affects, and is expected to continue affecting, the Group's Press and Radio businesses.

Moreover, the digital advertising business itself is subject to constant change. The emergence of digital advertising networks and markets, especially, disruptive methods of advertising auctions, such as Real-time bidding, is allowing advertisers to develop more personalized advertising and is putting downward pressure on prices.

Likewise, there is a proliferation of technologies and applications that allow users to avoid digital advertising on web pages and mobile applications, and for smartphones that visit.

If the Group's businesses do not manage to successfully adapt to the new demands of consumers and to new business models, there could be a material adverse effect on the Group's income and results.

Competition risk-

Prisa's businesses operate in highly competitive sectors.

Competition between companies offering online content is intense in the Press and Radio businesses, and the Group is fighting for advertising against traditional players and new content providers and news aggregators.

In the Education business, the Group also competes against traditional players and smaller businesses, online portals and digital operators offering alternative content and methodology. Moreover, students often head to cheaper content sources, file and document exchanges over different platforms, websites, 'pirate' copies or second-hand material.

The ability to anticipate and adapt to the requirements and new demands from customers may impact the competitive position of Group businesses with regard to other competitors.

Country risk-

Prisa operations and investments may be affected by different risks that are typical to investments in countries with emerging economies or with unstable backdrops, such as currency devaluation, capital controls, inflation, expropriations or nationalizations, tax changes or changes in policies and regulations.

Regulatory risk-

Prisa operates in regulated sectors and, therefore, is exposed to regulatory and governmental risks that could negatively impact the business.

Specifically, the radio business is subject to having franchises and licenses for its activity, while the education business is subject to public policies applied by the governments of the countries where the Group operates. Therefore, the Education business could be affected by legislative changes, changes in the contracting procedures of public administrations, or the need to obtain prior administrative authorization with respect to the content of publications. Curriculum changes force the Group to modify its education contents, which requires making additional investments and so there is the additional risk that the return on these investments will be less than expected.

Furthermore, Prisa businesses are subject to many regulations in terms of fair competition, control of economic mergers or anti-monopolistic legislation at a global or local level.

Risk of concentration of sales in the public sector-

The main customers in the Group's Education business are the governments and public bodies in the various jurisdictions where it operates. During the first half 2018, 17.1% of the operating income of the Education business came from institutional sales, with a particularly high concentration existing in Brazil.

This dependence on public administrations could represent a risk for the results and business of the Group if the economic situation of these countries deteriorated, if there were changes in regulations or in public policies.

Digital transformation process-

The businesses where the Group operates are in a permanent process of technological change. Recent technological progress has introduced new methods and channels for content distribution and use. This progress then drives changes in consumer preferences and expectations.

In order to maintain and boost competitiveness and business, Prisa needs to adapt to technological progress meaning research and development are key elements. Digital transformation imply several risks such as developing new products and services to respond to market trends, losing of value of contents within a digital environment, importance of technology to develop digital business or resistance to technological change in businesses of the Group.

Technology risk-

The businesses in which the Group operates depend, to a greater or lesser extent, on information technology (“IT”) systems. The Group offers software or technology solutions through web-based platforms.

IT systems are vulnerable to a set of problems, such as malfunctioning hardware and software, computer viruses, hacking and the physical damage sustained by IT centers. IT systems require regular updates, and it is possible that the Group cannot implement the necessary updates at the right time or that updates might not work as planned. Moreover, cyber-attacks on Prisa’s systems and platforms could result in the loss of data or compromise customer data or other sensitive information. Major faults in the systems or attacks on their security could have an adverse effect on Group operating profits and financial conditions.

In this regard, the Group has externalized with Indra Sistemas, S.A. ('Indra') its information technology management service and the development of innovative projects at some Group companies. If this service provision ceases, Group operations could be impacted.

Litigation and third-party claims risk-

Prisa is involved in important litigation and is also exposed to liability for the content in its publications and programs. Moreover, when running its activities and businesses, the Group is exposed to potential liabilities and claims in the area of employment relations.

Data protection-

The Group has a large amount of personal data at its disposal through development of its businesses, included those related to employees, readers and students. Therefore, the Group is subject to data protection regulations in different countries where it operates. Any violation of these regulations could have an adverse impact on the Group's business.

Intellectual property-

The Group's businesses depend, to a large extent, on intellectual and industrial property rights, including the brands, literary content or technology developed internally by the Group, among others. Brands and other intellectual and industrial property rights constitute one of the Group's pillars of success and ways to maintain a competitive advantage However, there is the risk that third parties might, without the Company's authorization, attempt to unduly copy or obtain and use the content, services and technology developed by the Group.

In addition, in order to use third-party intellectual property rights, the Group has non-exclusive paid-for permission from management companies servicing the owners of these rights.

Likewise, recent technological advances have greatly facilitated the unauthorized reproduction and distribution of content through diverse channels, thereby hindering the execution of protection mechanisms associated with intellectual and industrial property rights.

3. OUTLOOK

The media industry is highly sensitive to trends in the main macroeconomic variables (i.e. GDP), consumption and, especially, the advertising cycle. Furthermore, businesses such as Education and Radio with an international presence are affected by changes on the exchange rates of the countries in which they operate. The economic management of these businesses will also be affected by predictable changes in these variables.

According to the IMF (data from April 2018), the growth forecasts for the economies on the Iberian Peninsula remain valid for 2018.

In turn, Prisa's activities and investments in Latin America are exposed to the performance of the different macroeconomic inputs in every country, including changes in consumer demand due to a higher or lower growth rate in some countries or the performance of their economies.

According to the IMF (April 2018), growth will be ongoing in all countries where Prisa operates in 2018, at a higher rate than in 2017, except in Ecuador and Argentina (which will see growth albeit at a lower rate), Venezuela and Puerto Rico. Brazil will see a higher growth rate (2.3%) while the upswing in Colombia, Chile and Peru stands out.

Group business performance will be affected by economic growth. Group earnings will also be affected by the performance of exchange rates. The Group's results in Latin America up to June were negatively affected by the devaluation of the exchange rate in the region. This effect is partially offset by the sale of Santillana's assets in the United States. Excluding both effects, the results of Latin America continue to show growth in local currency, thanks to the good performance of Santillana in Argentina, Mexico and Chile and the advertising growth in Radio Colombia and Chile.

At the end of 2018, the results in Education and Radio will continue to be affected by exchange rate performance, with prospects that the negative exchange effect will continue at the end of the year. In any case, the volatility of Latin American exchange rates remains high.

Another factor which affects future developments is the advertising cycle. Nevertheless, Prisa Group's exposure to the performance of the advertising market is limited due to its diversified revenue mix (advertising revenues accounted for 37.1% of the total to June 2018). Businesses that rely heavily on advertising have a high percentage of fixed costs, and consequently any increase in advertising revenues has major implications for earnings, improving the Group's margins and its cash position.

Digital advertising is growing. Effectively, revenues rose by 10.4% in 2018 (partly because of the significant effect of the World Cup on As.com), with Press increasing its share of total advertising revenues to 51% (from 46% in December 2017). According to data from i2P (April 2018), growth is predicted to continue in 2018.

The advertising market in Spain throughout 2017 grew +1.9%) according to the i2P report. The same source (i2P) estimates further overall growth for the Spanish market of +2.1% in 2018.

In Spain, the Group's advertising revenues grew by 1.4% in the first half of 2018, thanks to the impact of the World Cup on As and Radio, the growth of local advertising on Radio and the growth of digital advertising. These effects offset the fall that continues to occur in paper advertising. Advertising revenue is expected to grow in line with the market in 2018 supported by continued digital growth and good advertising performance on Radio.

In Portugal, in 2015 and 2016, the advertising market suffered a slowdown due to the country's economic situation. In 2017, the Portuguese market did not grow in terms of television (partly because of the extraordinary effect of the General Elections being held in 2016). In 2018, the market has returned to growth, above +2% (on television): Media Capital advertising revenues are growing by 2.6% compared to the first half of 2017. For the second half of the year, advertising is expected to grow so that by the end of 2018, advertising will grow over 2017 above market forecasts.

In Latin America, according to the "PWC Global Entertainment and Media Outlook Report 2017-2021" report, the radio advertising market sector will grow, at constant rates in 2018 by 3.6%. Prisa Radio in Latin America in the first half has grown 12.7% at constant exchange rates (+3.2% at current rates), mainly due to growth in Colombia (partly due to institutional advertising related to the presidential campaign) and Chile. By the end of 2018, the trend of the first half of the year is expected to continue, so the year will end with growth at both constant and current rates.

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 the first half of 2018 contributed 47.9% of the Group's total revenue and 74.9% of its EBITDA. Revenue in

Latin America declined -6.2% during this same period due to a negative exchange rate effect. At a constant exchange rate, Education grew by 11.7% thanks to growth in Argentina (due to the performance of the regular sales campaign, higher institutional sales and the sale of a building), Mexico (mainly due to higher institutional sales) and because of the sale of Santillana assets in the United States. Performance in the campaigns of the southern area as a whole has been positive in local currency in 2018. The campaigns of the northern area mainly have an impact in the third quarter of the year. The sales recorded in the first half show only the beginning of the campaign. In turn, the digital education systems (UNO and Compartir) continued to expand in Latin America, with growth in enrolment and turnover (in local currencies). Performance in the second half will, in terms of Systems, mainly depend on students signing up in the countries of the northern campaign.

Part of Group growth for 2018 will rely on digital expansion. Digital audience numbers rose sharply (153 million unique browsers at the end of June 2018, up 11% from the previous year). In 2018, the Company will continue efforts to boost digital growth in all its business lines. Specifically, in Press the focus will remain on fully leveraging the leadership positions of the El País and As newspapers, not only in Spain, but also in the American market besides the marketing drive towards digital video.

In addition, the Group will remain active during the second half of the year in strengthening its balance sheet structure, reducing debt and controlling cash generation in 2018.