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

Consolidated Condensed Financial Statements and Consolidated Directors' Report for the six months ended June 30, 2016, together with the Report of limited review

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

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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 Company") and Subsidiaries ("the Group"), which comprise the condensed consolidated balance sheet at June 30, 2016 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and explanatory notes thereto for the six-month period then ended. The Company´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 causes us to believe that the accompanying interim financial statements for the six-month period ended June 30, 2016 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, pursuant to Article 12 of Royal Decree 1362/2007, for the preparation of interim condensed financial statements.

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

Emphasis of matter paragraph

We draw attention to Note 1 to the accompanying Notes to the 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, 2015. This matter does not affect our conclusion.

Report on other legal and regulatory requirements

The accompanying interim consolidated directors' report for the six-month period ended June 30, 2016 contains the explanations which the Company´s directors consider appropriate about the significant events which 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, 2016. 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 in accordance with the requirements of Article 119 of Legislative Royal Decree 4/2015, of 23 October, approving the Consolidated Spanish Securities Market Law according to Royal Decree 1362/2007, of 19 October.

DELOITTE, S.L.

Fernando García Beato
July 22, 2016

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

Condensed Consolidated Financial Statements together with Consolidated Directors' Report for the six months ended June 30, 2016

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

Condensed Consolidated Financial Statements for the six months ended June 30, 2016

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS AT JUNE 30, 2016 AND DECEMBER 31, 2015

(Thousands of Euros)

ASSETS	Notes	06/30/16 (*)	12/31/15
A) NON-CURRENT ASSETS		**1,344,703**	**1,336,733**
I. PROPERTY, PLANT AND EQUIPMENT	3	125,671	127,866
II. GOODWILL	4	589,918	577,298
III. INTANGIBLE ASSETS	4	133,056	129,051
IV. NON-CURRENT FINANCIAL ASSETS	5	30,721	30,904
V. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	6	41,570	42,841
VI. DEFERRED TAX ASSETS	7	420,555	425,218
VII. OTHER NON-CURRENT ASSETS		3,212	3,555
B) CURRENT ASSETS		**798,722**	**1,026,659**
I. INVENTORIES		170,168	153,521
II. TRADE AND OTHER RECEIVABLES			
1. Trade receivables for sales and services		363,659	434,224
2. Receivable from associates		5,062	3,763
3. Receivable from public authorities		39,652	34,274
4. Other receivables		31,367	34,927
5. Allowances		(55,334)	(67,551)
		384,406	439,637
III. CURRENT FINANCIAL ASSETS	5	20,238	114,453
IV. CASH AND CASH EQUIVALENTS		223,910	319,001
V. NON-CURRENT ASSETS HELD FOR SALE		-	47
TOTAL ASSETS		**2,143,425**	**2,363,392**

EQUITY AND LIABILITIES	Notes	06/30/16 (*)	12/31/15
A) EQUITY	**8**	**(295,205)**	**(394,587)**
I. SHARE CAPITAL		235,008	235,008
II. OTHER RESERVES		(709,226)	(800,689)
III. ACCUMULATED PROFIT		122,767	144,206
- From prior years		133,251	138,912
- For the year: Profit attributable to the Parent		(10,484)	5,294
IV. TREASURY SHARES		(2,168)	(2,386)
V. EXCHANGE DIFFERENCES		(9,524)	(37,662)
VI. NON CONTROLLING INTEREST		67,938	66,936
B) NON-CURRENT LIABILITIES		**1,943,330**	**2,176,489**
I. NON-CURRENT BANK BORROWINGS	9	1,697,175	1,907,758
II. NON-CURRENT FINANCIAL LIABILITIES	9	129,269	131,822
III. DEFERRED TAX LIABILITIES	7	26,455	36,452
IV. LONG-TERM PROVISIONS	10	49,930	59,746
V. OTHER NON-CURRENT LIABILITIES		40,501	40,711
C) CURRENT LIABILITIES		**495,300**	**581,490**
I. TRADE PAYABLES		265,099	296,062
II. PAYABLE TO ASSOCIATES		2,289	2,893
III. OTHER NON-TRADE PAYABLES		57,597	65,737
IV. CURRENT BANK BORROWINGS	9	73,373	100,765
V. CURRENT FINANCIAL LIABILITIES	9	11,400	23,117
VI. PAYABLE TO PUBLIC AUTHORITIES		68,713	62,623
VII. PROVISIONS FOR RETURNS		2,418	7,511
VIII. OTHER CURRENT LIABILITIES		14,411	22,782
TOTAL EQUITY AND LIABILITIES		**2,143,425**	**2,363,392**

(*) Non audited financial statements

The accompanying Notes 1 to 18 are an integral part of the Condensed Consolidated Balance Sheets at June 30, 2016.

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(Thousands of Euros)

	Notes	06/30/2016 (*)	06/30/2015 (*)
Revenues	13	616,307	637,939
Other income		8,147	12,082
OPERATING INCOME	11	624,454	650,021
Cost of materials used		(100,645)	(97,679)
Staff costs		(193,508)	(214,283)
Depreciation and amortisation charge		(36,468)	(43,968)
Outside services	11	(243,763)	(252,720)
Variation in operating allowances		(4,216)	(7,424)
Other expenses		(910)	(155)
OPERATING EXPENSES		(579,510)	(616,229)
PROFIT FROM OPERATIONS		44,944	33,792
Finance income		21,055	51,057
Finance costs		(47,154)	(106,416)
Changes in value of financial instruments		-	839
Exchange differences (net)		106	(8,930)
FINANCIAL LOSS	12	(25,993)	(63,450)
Result of companies accounted for using the equity method		1,989	2,127
Loss from other investments		(36)	-
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		20,904	(27,531)
Income tax		(17,752)	54,545
PROFIT FROM CONTINUING OPERATIONS		3,152	27,014
Loss after tax from discontinued operations		(287)	(280)
CONSOLIDATED PROFIT FOR THE PERIOD		2,865	26,734
Profit attributable to non controlling interests		(13,349)	(15,938)
PROFIT ATTRIBUTABLE TO THE PARENT		(10,484)	10,796
BASIC EARNINGS PER SHARE (in euros)		(0.13)	0.15

(*) Non audited financial statements

The accompanying Notes 1 to 18 are an integral part of the Condensed Consolidated Income Statements for the six months ended June 30, 2016

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(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 2014	**215,808**	**1,328,671**	**(1,175,055)**	**(72,661)**	**1,471,593**	**(3,116)**	**(4,842)**	**(2,236,832)**	**(476,434)**	**(141,337)**	**(617,771)**
Treasury share transactions											
- Delivery of treasury shares						2,755			2,755		2,755
- Purchase of treasury shares						(1,162)			(1,162)		(1,162)
- Reserves for treasury shares			180			(180)			-		-
Distribution of 2014 result											
- Reserves			(912,712)		(1,324,120)			2,236,832	-		-
Income and expense recognised in equity											
- Translation differences					(18,004)		1,411		(16,593)	(5,470)	(22,063)
- Profit for 2015								10,796	10,796	15,938	26,734
- Measurement of financial instruments			(11,581)						(11,581)		(11,581)
Other		(97)	361		3,909				4,173	233	4,406
Changes in non controlling interest											
- Dividends paid during the year										(15,601)	(15,601)
- Due to changes in scope of consolidation										218,245	218,245
Balance at June 30, 2015 (*)	**215,808**	**1,328,574**	**(2,098,807)**	**(72,661)**	**133,378**	**(1,703)**	**(3,431)**	**10,796**	**(488,046)**	**72,008**	**(416,038)**
Balance at 31 December 2015	**235,008**	**1,371,299**	**(2,099,327)**	**(72,661)**	**138,912**	**(2,386)**	**(37,662)**	**5,294**	**(461,523)**	**66,936**	**(394,587)**
Issuance of equity instruments *(Note 8)*			100,742						100,742		100,742
Treasury share transactions											
- Delivery of treasury shares						636			636		636
- Reserves for treasury shares			418			(418)			-		-
Distribution of 2015 result											
- Reserves			(5,168)		10,462			(5,294)	-		-
Income and expense recognised in equity											
- Translation differences					(9,690)		21,018		11,328	4,309	15,637
- Profit for 2016								(10,484)	(10,484)	13,349	2,865
- Measurement of financial instruments			3						3		3
Other		(7)	(4,525)		(6,433)		7,120		(3,845)	860	(2,985)
Changes in non controlling interest											
- Dividends paid during the year										(17,569)	(17,569)
- Due to changes in scope of consolidation										53	53
Balance at June 30, 2016 (*)	**235,008**	**1,371,292**	**(2,007,857)**	**(72,661)**	**133,251**	**(2,168)**	**(9,524)**	**(10,484)**	**(363,143)**	**67,938**	**(295,205)**

(*) Non audited financial statements

The accompanying Notes 1 to 18 are an integral part of the Condensed Consolidated Statements of Changes in Equity for the six months ended June 30, 2016.

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPRENHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(Thousands of Euros)

	06/30/2016 (*)	06/30/2015 (*)
CONSOLIDATED PROFIT FOR THE PERIOD	**2,865**	**26,734**
Income and expense recognized directly in equity	**15,640**	**(33,644)**
Translation differences	**19,155**	**(22,550)**
Measurement of financial instruments	**4**	**(16,085)**
Financial assets available for sale	4	(16,085)
Tax effect	**(1)**	**4,504**
Entities accounted for using the equity method	**(3,518)**	**487**
TOTAL RECOGNIZED INCOME AND EXPENSE	**18,505**	**(6,910)**
Attributable to the parent company	847	(17,378)
Attributable to non controlling interest	17,658	10,468

(*) Non audited financial statements

The accompanying Notes 1 to 18 are an integral part of the Condensed Consolidated Statements of Comprehensive Income for the six months ended June 30, 2016.

PROMOTORA DE INFORMACIONES, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED CASH FLOWS STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(Thousands of Euros)

	06/30/16 (*)	06/30/15 (*)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**20,904**	**(27,531)**
Depreciation and amortisation charge and provisions	41,531	51,359
Changes in working capital	**(18,766)**	**9,949**
Inventories	(16,647)	(6,698)
Accounts receivable	55,271	101,683
Accounts payable	(57,390)	(85,036)
Income tax recovered (paid)	(18,682)	(25,320)
Other profit adjustments	**19,186**	**36,190**
Financial results	25,993	63,450
Gains and losses on disposal of assets	325	-
Other adjustments	(7,132)	(27,260)
CASH FLOWS FROM OPERATING ACTIVITIES	**44,173**	**44,647**
Recurrent investments	**(32,906)**	**(31,875)**
Investments in intangible assets	(23,190)	(21,445)
Investments in property, plant and equipment	(9,716)	(10,430)
Investments in non-current financial assets	(10,110)	(4,868)
Proceeds from disposals	106,207	769,986
Investments in non-current financial assets	94	4,390
CASH FLOWS FROM INVESTING ACTIVITIES	**63,285**	**737,633**
Proceeds and payments relating to equity instruments	(871)	(1,161)
Proceeds relating to financial liability instruments	51,609	4,218
Payments relating to financial liability instruments	(201,260)	(582,125)
Dividends and returns on other equity instruments paid	(27,821)	(1,578)
Interest paid	(21,291)	(25,823)
Other cash flow from financing activities	(231)	(16,131)
CASH FLOWS FROM FINANCING ACTIVITIES	**(199,865)**	**(622,600)**
Effect of foreign exchange rate changes	(2,684)	(16,000)
CHANGE IN CASH FLOWS FROM CONTINUING OPERATIONS	**(95,091)**	**143,680**
CHANGE IN CASH FLOWS IN THE YEAR	**(95,091)**	**143,680**
Cash and cash equivalents at beginning of year	**319,001**	**152,431**
- Cash	301,129	117,410
- Cash equivalents	17,872	35,021
Cash and cash equivalents at end of period	**223,910**	**296,111**
- Cash	218,228	280,508
- Cash equivalents	5,682	15,603

(*) Non audited financial statements.

The accompanying Notes 1 to 18 are an integral part of the Condensed Consolidated Cash Flow Statements for the six months ended 30 June 2016.

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

Notes to the Condensed Consolidated Financial Statements for the six months ended June 30, 2016

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, 2016

(1) BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2016

The condensed consolidated financial statements of Grupo Prisa for the first half of 2016 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, 2016 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 22, 2016.

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 2015. Therefore, the interim condensed consolidated financial statements do not contain all the information and disclosures required for a complete set of consolidated financial statements in accordance with IFRSs as adopted by the European Union. In order to correctly understand the information included in these condensed consolidated financial statements for the six months ended June 30, 2016, they must be read in conjunction with the consolidated financial statements for 2015.

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 2016 and 2015.

In the first half of 2016, Prisa has issued bonds mandatorily convertible into ordinary shares, which has been subscribed through the conversion of financial debt of the Company. The accounting of this transaction is described in note 8.

The condensed consolidated financial statements for the six months ended June 30, 2016 have been subjected to a limited review by the external auditor of the company.

a) Evolution of the financial structure of the Group

In December 2013, the Group signed an agreement to refinance its financial debt which involved maturity date extensions; greater flexibility in the process of debt reduction and an improvement in its liquidity profile.

This improvement in its liquidity profile was the result of obtaining an additional credit line arranged with certain institutional investors which was provided in full and cancelled in 2015 using part of the funds from the sale of 56% of DTS, Distribuidora de Televisión Digital, S.A. ("DTS") *(see note 9)*.

The refinancing agreement included a series of commitments to reduce debt for 2015 and 2016 which, at December 31, 2015, fulfilled in advance, in such a way that the next relevant financial commitment is to fall due in 2018, when Tranche 2 falls due (*see note 9*).

In 2014, 2015 and in the first half of 2016, the company paid off a total of EUR 1,727,803 thousand using the funds from the following transactions:

- EUR 844,166 thousand with the proceeds from the sale of 17.3% de Mediaset España Comunicación, S.A. ("Mediaset España"). In 2014, 13.68% of the company was sold and debt of EUR 643,542 thousand was paid off, with an average discount of 25.7%. In 2015 an additional 3.63% of the company was sold, cancelling EUR 200,624 thousand of debt with an average discount of 18.3%.

- EUR 705,896 thousand, with part of the funds obtained through the settlement of the sale of 56% of DTS in 2015. In 2015, EUR 621,779 thousand was cancelled: EUR 385,542 thousand corresponded to the credit line obtained in 2013 and additionally, in accordance with the refinancing contract, debt of EUR 96,686 thousand was cancelled at an average discount of 12.9% along with EUR 139,551 thousand at par value. During the first half of 2016, EUR 65,945 thousand were cancelled with an average discount of 16.02%. Additionally, EUR 18,172 thousand were cancelled at par value using half of the proceeds obtained from the favourable resolution of the pending adjustments to the sale price of DTS (*see notes 2 and 9*).

- EUR 133,133 thousand, with the funds obtained from the increase in capital subscribed by Consorcio Transportista Occher, S.A. de C.V. ("Occher") in 2014, at a discount of 25%.

- EUR 33,096 thousand, with the funds obtained from the increase in capital subscribed by International Media Group, S.à.r.l. by the end of 2015, at an average discount of 23.2%.

- EUR 11,512 thousand with funds from the sale of the trade publishing business in 2014.

Additionally, on April 1, 2016 the Shareholders´ General Meeting of Prisa approved the bonds issue, mandatorily convertible into newly issued ordinary shares, through the conversion of financial debt of the Company. The issue of the bonds has been subscribed in April through debt cancellation for an amount of EUR 100,742 thousand *(see notes 8 and 9).*

These transactions made a significant contribution to reinforce and re-establish Prisa's equity, which had in the past been affected by losses from registering the sale agreement of 56% of DTS which automatically converted Tranche 3 debt into participating loans, as shown in the Group's financing agreements (*see note 9*).

At June 30, 2016, the equity of the parent company with respect to the cause of dissolution and/or reduction of capital stipulated in Spain's Corporate Enterprises Act (including participating loans outstanding at year end) stood at EUR 161,078 thousand, more than two thirds of total share capital.

b) New standards which have become effective

During the first half of 2016 new accounting standards have come into force, and therefore, were taken into account when preparing the half-yearly condensed consolidated financial statements. From January 1, 2016 the following new standards are being implemented:

- Amendment to IAS 16 and 38
- Amendment to IFRS 11
- Amendment to IAS 16 and 41
- Improvements to IFRS Cycle 2012 – 2014
- Amendment to IAS 27
- Amendments to IAS 1

The content of these new standards and amendments are explained in note 2.a. to the 2015 consolidated financial statements. The application of these standards and amendments did not have a significant impact on the condensed interim consolidated financial statements.

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 2015.

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 2016 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, 2016, there were no significant changes in the estimates made at the end of 2015.

d) Comparison of the information

The information contained in these condensed consolidated financial statements for the six months ended June 30, 2015 is presented only for comparison purposes with the information relating to the six months ended June 30, 2016.

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, 2016.

(2) CHANGES IN THE GROUP STRUCTURE

The most significant changes in the scope of consolidation in the first half of 2016 were as follows:

Subsidiaries

In January 2016, Gran Vía Musical Colombia, S.A.S., 100% owned by Gran Vía Musical de Ediciones, S.L., was disolved.

In April 2016, Prisa Radio Perú, S.A.C. was created, 99.99% owned by Sociedad Española de Radiodifusión, S.L. and 1 share by Prisa Radio, S.A.

In June 2016, RLM Colombia, S.A.S, was liquidated, 100% owned by RLM, S.A.

Also, in June 2016, Projectos de Media e Publicidade Unipessoal, Lda, merged with Serviçios de Consultoria e Gestão, S.A.

Additionally in June, 2016, Nova Ediciones Musicales, S.A., Lirics and Music, S.L. and Compañía Discográfica Muxxic Records, S.A. merged with Gran Vía Musical de Ediciones, S.L.

Associates

In June 2016, Promotora de Emisoras de Televisión, S.A. sold 49.0% of its holding in the capital of Riotedisa, S.A.

Significant operations

In the first half of 2016, the two pending adjustments in relation to the final price of the sale of shares of DTS have been resolved in favor of Prisa, which has supposed a cash inflow of EUR 7,170 thousand in February 2016 and EUR 29,173 thousand in May. Following the positive resolutions of these adjustments, the final price of the sale of DTS has been set at EUR 724,554 thousand.

In March 2016, Grupo Santillana Educación Global, S.L. signed an agreement with Carvajal, S.A. for the acquisition of its educational business (NORMA) for a price of COP 60,000 million (equivalent to around EUR 16,800 thousand), subject to the usual adjustments in this type of transactions.

The transaction consists of the acquisition of the shares owned by Carvajal, S.A. in the companies engaged in the education business in Colombia, Argentina, Chile, Guatemala, Mexico, Peru, Puerto Rico and Ecuador, as well as the transfer of certain trademarks linked to the business and the granting of a license over trademarks associated to the NORMA name of Grupo Carvajal.

The closing of the transaction is subject, among others, to the prescriptive authorization of the anti-trust authorities in some of the countries in which the company operates.

(3) PROPERTY, PLANT, AND EQUIPMENT

Additions to the Group's consolidated financial statements under "*Property, plant and equipment*" during the first half of 2016 totaled EUR 9,716 thousand, corresponding mainly to the investments made for Santillana in digital developments and learning systems (EUR 5,066 thousand), investments made for Media Capital in audiovisual equipment (EUR 953 thousand) and investment in technical equipment made for Prisa Radio (EUR 1,845 thousand).

(4) GOODWILL AND INTANGIBLE ASSETS

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

Additions to the Group's condensed consolidated financial statements under "*Intangible assets*" during the first half of 2016 amounted to EUR 23,190 thousand and are derived mainly from prototypes of the education business (EUR 20,811 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	
	06/30/16	12/31/15	06/30/16	12/31/15	06/30/16	12/31/15
Loans and receivables	16,291	16,591	723	38,048	17,014	**54,639**
Held to maturity investments	11,476	11,355	16,463	75,588	27,939	**86,943**
Financial assets at FV through P&L	-	10	-	-	-	**10**
Available-for-sale financial assets	2,954	2,948	3,052	817	6,006	**3,765**
Total	**30,721**	**30,904**	**20,238**	**114,453**	**50,959**	**145,357**

The change in the heading *"Current financial assets- Loans and receivables"* in the first half of 2016, is a consequence of the collected of the two pending adjustments in relation to the final price of the sale of shares of DTS following the favorable resolution in favor of Prisa (EUR 36,343 thousand) *(see notes 2 and 17).*

In addition, the decrease in the heading "*Current financial assets- Held to maturity investment*" is mainly due to the cancellation of deposits with maturity less than one year.

(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 2016, is mainly due to the effect of exchange rate in Sistema Radiópolis, S.A. de C.V.

(7) DEFERRED TAX ASSETS AND LIABILITIES

The changes in "*Deferred Tax Assets*" mainly include (i) the tax credit due to limiting the deductibility of financial expenses for an amount of EUR 5,475 thousand (ii) the posted tax expense until June, which includes applying tax credits from previous financial years, for the amount of EUR 4,582 thousand and (iii) applying (EUR 2,761 thousand), eliminating (EUR 6,635 thousand) and activating and applying (EUR 12,967 thousand) tax credits due to the Spanish Corporation Tax inspection records for the 2009-2011 financial period. Activating tax credits has been done where the estimates made by Group Directors enable their recovery within the set legal period.

The changes to "*Deferred Tax Liabilities*" mainly refer to (i) the impact from different accounting and tax recognition criteria for the financial income resulting from discounted debt buybacks from this and previous financial years, representing a net cancellation of EUR 3,957 thousand and (ii) the different accounting and tax recognition criteria for certain institutional sales made in Brazil, representing the cancellation of EUR 4,537 thousand.

Tax Inspections

During the first half of 2016, a sentence partially upholding the Group's position was issued by the National High Court relating to Corporation Tax for financial years 2003-2005, in spite of which a cassation review has been lodged with the Supreme Court. The tax debt arising from this decision was paid despite the appeal. A possible dismissal would not have any additional negative impact on Group equity.

In turn, the consolidated tax group 2/91 inspections came to an end in the first half of 2016, of which Promotora de Informaciones, S.A. is the parent company, for Corporation Tax relating to financial years 2009 to 2011, with the issue of a no payment notice against which the Company has filed a motion for review.

The settlement impact from this inspection represents recognising a net expense for corporation tax of EUR 2,063 thousand in the consolidated financial statements.

The consolidated tax group 105/08 inspection relating to VAT for the period 2010-2011 was also completed, of which Promotora de Informaciones, S.A. is the parent company, with the issuance of (i) an uncontested signed notice for EUR 512 thousand, which has been entered into the accounts and will be paid in the voluntary payment period and (ii) a notice signed on a contested basis for EUR 7,814 thousand that has been lodged before the Central Board of Tax Appeals (Tribunal Económico-Administrativo Central).

Lastly, the consolidated tax group 194/09 Corporation Tax inspections for the financial years 2009-2011 also concluded, of which Prisa Radio was the parent company, with the issuance of a notice signed on a contested basis for the amount of EUR 900 thousand, against which the company has filed an appeal with the Central Board of Tax Appeals. Nevertheless, the notice has been paid and the impact from this inspection represents recognizing an expense for EUR 208 thousand in the Prisa Radio Group financial statements.

(8) EQUITY

Share capital

During the first half of 2016 the share capital of Prisa has not changed.

On June 30, 2016, the share capital of Prisa amounts to EUR 235,008 thousand and is represented by 78,335,958 ordinary shares with a nominal value of EUR 3.00 each.

Share capital is fully subscribed and paid up.

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

Share premium

The amount of the issue premium reserve at June 30, 2016 amounting to EUR 1,371,292 thousand and it is totally unrestricted.

Issuance of financial instrument

On April 1, 2016 the Shareholders´ General Meeting of Prisa approved a bonds issuance, mandatorily convertible into new issue ordinary shares of Prisa, through the conversion of financial debt of the Company. The issuance has been exclusively aimed to certain financial creditors of the Company that have subscribed a total of 10,074,209 bonds through the capitalization of some credits that amount a total of EUR 100,742 thousand. The issue of the bonds has been subscribed in April and it is divided in two tranches (*see note 9*):

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

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

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

The issuance of the bond has been registered as an equity instrument as it is mandatory convertible into a fixed number of shares and includes no contractual obligation to deliver cash or another financial asset. Therefore, at June 30, 2016, the line *"Other reserves"* of the accompanying condensed balance sheet includes an increase in equity of EUR 100,742 thousand as a result of valuating the transaction at the fair value of the equity instruments to be issued.

Non-controlling interest

The detail, by company, of the non-controlling interest at June 30, 2016 and December 31, 2015 is as follows:

	Thousands of euros	
	06/30/2016	12/31/2015
Caracol, S.A.	11,354	13,947
Diario As, S.L.	12,152	11,628
GLR Chile, Ltda.	17,440	17,130
Grupo Santillana Educación Global, S.L. and subsidiaries	506	(3,261)
Grupo Media Capital, SGPS, S.A. and subsidiaries	7,282	7.741
Prisa Radio, S.L. and subsidiaries (Spain)	13,335	13,247
Other companies	5,869	6,504
Total	**67,938**	**66,936**

(9) FINANCIAL LIABILITIES

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

	Thousands of euros					
	Non-current financial liabilities		Current financial liabilities		Total financial liabilities	
	06/30/16	12/31/15	06/30/16	12/31/15	06/30/16	12/31/15
Bank borrowings	1,697,175	1,907,758	73,373	100,765	1,770,548	2,008,523
Other financial liabilities	129,269	131,822	11,400	23,117	140,669	154,939
Total	**1,826,444**	**2,039,580**	**84,773**	**123,882**	**1,911,217**	**2,163,462**

Bank borrowings

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

	Drawn-down amount maturing at short term	Drawn-down amount maturing at long term
Syndicated loan Prisa (Tranches 2 and 3)	-	1,147,839
Participative loan (PPL)	-	433,257
Credit facilities, loans, finance leases and other	73,610	151,363
Loan arrangement costs	(237)	(35,284)
Total	**73,373**	**1,697,175**

In accordance with IFRS 13, to determine the theoretical calculation of the fair value of the financial debt we used the Euribor curve and the discount factor supplied by the bank and the actual credit risk arising from a report provided by an independent expert regarding the transactions made in the secondary debt market once the refinancing process is completed (level 2 variables, estimates based on other observable market methods). The fair value of the Group's financial debt, according to this calculation, would amount to EUR 1,495,713 thousand at June 30, 2016 considering a 15.52% average discount over the real principal payment obligation to the creditor entities.

The main loans and credits with financial institutions at June 30, 2016 are as follows:

Syndicated loan (Tranches 2 and 3)-

In December 2013, as part of the refinancing of its financial debt, Prisa agreed to the renewal of its syndicated loan, bridge loan and bilateral loans in an amount of EUR 2,924,732 thousand. The debt renewal was structured into tranches as follows:

- EUR 646,739 thousand (Tranche 2) maturing at long-term (5 years) at an interest rate referenced to the Euribor plus a margin negotiated with the lenders; and

- EUR 2,277,993 thousand (Tranche 3) maturing at long-term (6 years) at an interest rate referenced to the Euribor plus a margin negotiated with the lenders (PIK).

Tranche 2-

Under the refinancing agreement subscribed by the company, the level of Tranche 2 debt was set at EUR 956,512 thousand, following the mandatory cancellation, in May 2015, of the total for Tranche 1 with part of proceeds from the sale of DTS, for an amount of EUR 385,542 thousand, and the sale of the general publishing business.

Therefore Tranche 2 debt has been modified by the following:

- Debt cancellation in an amount of EUR 142,968 thousand in 2015:
    - With part of the proceeds from the sale of 3.63% of Mediaset España, Prisa repurchased debt at a discount in an amount of EUR 105,939 thousand, at an average discount of 14.4%.
    - With part of the proceeds from the sale of 56% of DTS, Prisa paid off EUR 25,517 thousand, at an average discount of 12.94%.
    - With part of the proceeds from the sale of the general publishing business in 2014, debt of EUR 11,512 thousand was paid off.
- Debt cancellation in an amount of EUR 47,113 thousand debt in the first half of 2016 with part of the proceeds from the sale of 56% of DTS, at a discount of 16.02%.
- To reach the new Tranche 2 debt level, after the partial cancellations described above, EUR 452,741 thousand of debt was transferred from Tranche 3 in 2015 and EUR 47,113 thousand in the first half of 2016.

Tranche 3-

The refinancing agreement included a series of commitments to reduce debt by EUR 900,000 thousand in 2015, and by an additional EUR 600,000 in 2016, and, at December 31, 2015, these commitments have been fulfilled in advance. Consequently, the following relevant financial commitment has been established for 2018, when Tranche 2 falls due.

The transactions carried out by the Group to meet its debt reduction commitments are as follows:

- Debt cancellation in an amount of EUR 776,675 thousand in 2014:
    - Prisa repurchased debt in an amount of EUR 643,542 thousand, at an average discount of 25.70%, with the net proceeds from the sale of 13.68% of Mediaset España.

    - Debt was repurchased in an amount of EUR 133,133 thousand, at a discount of 25.00%, with the amount from the capital increase subscribed by Occher.

- Debt cancellation in an amount of EUR 305,405 thousand in 2015:

    - Prisa repurchased discounted debt in an amount of EUR 94,685 thousand, at an average discount of 22.61% with part of the net proceeds from the sale of 3.63% of Mediaset España.
    - With part of the proceeds from the sale of 56% of DTS, Prisa paid off EUR 210,720 thousand, of which an amount of EUR 71,168 thousand was cancelled at a discount of 13.07%.

- Debt cancellation of EUR 37,004 thousand in the first half of 2016, of which EUR 18,832 thousand were cancelled at a discount of 16.02% and EUR 18,172 thousand were cancelled at par with the funds derived from the favourable resolution of price adjustments of DTS.

- Meanwhile, as provided for in the refinancing agreement, the mandatory cancellation of the total of Tranche 1 with the proceeds from the sale of DTS and the partial cancellation of part of Tranche 2 with the transactions described above gave rise to the transfer of EUR 452,741 thousand of Tranche 3 to Tranche 2 during 2015 and EUR 47,113 thousand of Tranche 3 to Tranche 2 during the first half of 2016.

- In addition, as described below, due to the equity position of the parent company as a result of the sale of 56% of DTS, in September 2014 and in April 2015 the automatic debt conversion processes of Tranche 3 were formalized into participating loans in an amount of EUR 506,834 thousand and EUR 19,750 thousand respectively, as provided for in the company refinancing agreement.

Pursuant to the conditions for capitalization of the PIK on Tranche 3, during 2014 and 2015, debt increased in this regard by EUR 50,468 thousand.

Following the movements described above, on June 30, 2016, the amount of Tranche 3 stood at EUR 191,326 thousand (EUR 275,443 thousand at December 31, 2015).

Participating Loan (PPL)-

In June 2014, as a result of the loss of EUR 750,383 thousand by Prisa following the sale of a 56% stake in DTS, the equity of Prisa was negative in the amount of EUR 593,513 thousand, and therefore the company qualified for dissolution, pursuant to Spain's Corporate Enterprises Act.

In a bid to restore the equity balance, and in accordance with financing agreements of the Group, the automatic mechanism was again deployed to convert part of Tranche 3 of company debt into participating loans, in such a way that, on September 15, 2014, the process of converting debt into participating loans was formalized in an amount of EUR 506,834 thousand, and implied the reestablishment of the equity balance.

At December 31, 2014, as a result of, among other items, a review of the sale price of DTS and recognition of additional impairment of EUR 23,789 thousand, the equity of the Parent Company with respect to the cause of dissolution and/or reduction of capital stipulated in Spain's Corporate Enterprises Act (including participating loans outstanding at year end) stood at EUR 31,554 thousand.

In order to restore the equity balance, the mechanism was again used to automatically convert part of Tranche 3 of the company's debt into participating loans. On April 20, 2015, an amount of EUR 19,750 thousand of Tranche 3 was converted into participating loans, after consideration of the transactions executed up until that date designed to reduce this amount as much as possible.

During the first half of 2016, EUR 68,630 thousand of participative loans were cancelled as a result of the subscription of the mandatory convertible bond (*see note 8*). In addition, EUR 33,096 thousand of participative loans were cancelled using part of the funds from the capital increase subscribed in 2015 by International Media Group, S.à.r.l. (for a total amount of EUR 64,000 thousand) at an average discount of 23.19%.

The financial cost of the Participating Loan (PPL) is identical to that for Tranche 3. During 2014 and 2015 capitalized PIK increased debt by EUR 16,243 thousand. The participating loan balance at June 30, 2016 amounted to EUR 433,257 thousand (EUR 534,439 thousand at December 31, 2015).

Compliance with certain financial ratios is established in the financial agreements. The Group's directors consider that these ratios were fulfilled at June 30, 2016.

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.

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

Personal guarantees

Tranches 2, 3, and PPL of the Prisa debt corresponding to debt which was refinanced in December of 2013 are severally guaranteed by Grupo Bidasoa Press, S.L., Dédalo Grupo Gráfico, S.L., Diario El País, S.L., Distribuciones Aliadas, S.A., Grupo Empresarial de Medios Impresos, S.L., and Norprensa, S.A.

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

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

Guarantees

In December, 2013, resulting from a new syndicated loan which was repaid early in May, 2015, and the renewal of the remaining loans, Prisa pledged its shares in Prisa Radio, S.A. (73.49% of its share capital), DTS, Distribuidora de Televisión Digital, S.A. (56% of its share capital), Grupo Santillana Educación Global, S.L. (75% of its share capital), and part of Prisa's investment in Mediaset España Comunicación, S.A. (14.29% of its share capital). Nonetheless, as a result of (i) the sale of the Mediaset España Comunicación, S.A. shares exercised in 2014 and 2015, and (ii) the sale of 56% of the share capital of DTS, Distribuidora de Televisión Digital, S.A. agreed upon on June 2, 2014 and carried out on April 30, 2015, once the suspensive conditions to which it was subject had been met, there were no further Mediaset shares pledged in favor of financial institutions, with the shares of DTS, Distribuidora de Televisión Digital, S.A. pledged in guarantee cancelled.

On the same date, Prisa pledged on certain owned bank accounts and, additionally, Bidasoa Press, S.L., Dédalo Grupo Gráfico, S.L. and Distribuciones Aliadas, S.A.constituted pledge on receivables related to certain material contracts to guaranty the said creditors.

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

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

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

Subordinated Debt -

During the first half of 2016, Prisa´s total subordinated debt has been cancelled as holders (HSBC, Caixabank and several companies of Grupo Santander) subscribed the mandatory convertible bond into newly ordinary shares, for an amount of EUR 32,112 thousand (*see note 8*).

This debt originated from interest, known as “coupons”, on the convertible bonds subscribed in 2012 by these entities, in their capacities as the company’s bank lenders. As part of the refinancing process in 2013, these entities agreed for the payment of this interest to take place solely on the date for the mandatory reconversion of the bonds, namely July 7, 2014. Upon maturity of the convertible bonds and their corresponding coupons, Prisa and its bank creditors agreed to convert the amount of this capitalized interest into subordinated debt.

Other financial liabilities

At June 30, 2016, *"Other financial liabilities"* mainly include a financial liability of EUR 129,269 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, 2016, under the heading "*Other current financial liabilities*" is collected the obligation to pay accrued by the aforementioned dividend in the first half of 2016 for an amount of EUR 11,395 thousand. During the first half of 2016 has been paid the dividend accrued in 2015 for this item amounting to EUR 23,107 thousand.

(10) LONG-TERM PROVISIONS

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

The breakdown of "Long-term provisions" at June 30, 2016 and December 31, 2015 is as follows:

	Thousands of euros	
	06/30/2016	12/31/2015
For taxes	20,742	26,976
For redundancies	10,560	15,045
For third-party liability and other	18,628	17,725
Total	**49,930**	**59,746**

(11) OPERATING INCOME AND EXPENSES

Operating income

The breakdown of income from the Group's main business lines for the six months ended June 30, 2016 and June 30, 2015 is as follows:

	Thousands of euros	
	06/30/2016	06/30/2015
Advertising sales and sponsorship	235,132	242,382
Sales of books and training	275,768	294,701
Newspaper and magazine sales	46,800	48,135
Sales of add-ons and collections	10,674	9,610
Sale of audiovisual rights and programs	15,452	11,372
Intermediation services	3,221	3,629
Other services	29,260	28,110
Revenue	**616,307**	**637,939**
Income from non-current assets	908	1,408
Other income	7,239	10,674
Other income	**8,147**	**12,082**
Total operating income	**624,454**	**650,021**

Staff

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

	06/30/16	06/30/15
Men	4,769	5,271
Women	3,958	4,496
Total	**8,727**	**9,767**

The average number of employees at June 30, 2015, included the average number of those of DTS to the date of sale, the April 30, 2015, (1,118 employees).

Outside services

The detail of *"Outside services"* for the six months ended June 30, 2016 and June 30, 2015 is as follows:

	Thousands of euros	
	06/30/16	06/30/15
Independent professional services	62,826	62,616
Leases and fees	27,771	26,598
Advertising	26,058	32,562
Intellectual property	15,703	16,636
Transport	17,126	17,794
Other outside services	94,279	96,514
Total outside services	**243,763**	**252,720**

(12) FINANCIAL RESULT

The detail of *"Financial result"* for the group at June 30, 2016 and 2015 is as follows:

	Thousands of euros	
	06/30/2016	06/30/2015
Income from current financial assets	859	24,898
Income from equity investments	136	97
Other finance income	20,060	26,062
Finance income	**21,055**	**51,057**
Interest on debt	(31,347)	(49,158)
Finance costs on hedging transactions	-	(706)
Adjustments for inflation	(44)	(479)
Loan arrangement costs	(12,588)	(40,264)
Other finance costs	(3,175)	(15,809)
Finance costs	**(47,154)**	**(106,416)**
Exchange gains	7,694	12,401
Exchange losses	(7,588)	(21,331)
Exchange differences (net)	**106**	**(8,930)**
Change in fair value of financial instruments	**-**	**839**
Financial loss	**(25,993)**	**(63,450)**

At June 30, 2015, the *"Income from current financial assets"* mainly included the income generated for the sale of 3.63% of Mediaset España for an amount of EUR 23,964 thousand for the different between the sale price and the value of the stake sold in the moment of the lack of significant influence. In addition, the amount associated to de valuation as of December 31, 2014 of the sold stake has been offset in the line *"Other reserves"* in the consolidated balance sheet.

The *"Other finance income"* included capital gains on purchases of debt at a discount using the proceeds of the sale of DTS and of the capital increased subscribed by International Media

Group, S.à.r.l. in the first half of 2016 and with the proceeds of the sale of Mediaset España in the first half of 2015 *(see note 9)*.

At June 30, 2015 the *"Other finance costs"* included the prepayment fee of Tranche 1, amounting to EUR 11,509 thousand.

(13) BUSINESS SEGMENTS

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

	Thousands of euros	
	06/30/16	06/30/15
Internal market	247,453	238,582
Exports:	368,854	399,357
a) European Union	83,841	79,606
b) OECD countries	70,945	85,764
c) Other countries	214,068	233,987
Total	**616,307**	**637,939**

At June 30, 2016, Prisa's operations are divided into four main businesses:

- Education, which includes primarily the sale of educational books and the services and materials related to the education systems;
- Radio, the main source of revenue from which is the broadcasting of advertising and, in addition, the organization and management of events and the provision of other supplementary services;
- Press, which groups together mainly the activities relating to the sale of newspapers and magazines, advertising, promotions and printing; and
- Audiovisual, 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, 2016 and June 30, 2015 is presented below (in thousands of euros):

	Ordinary revenue from external customers		Ordinary revenue between segments		Total ordinary revenue	
	06/30/16	06/30/15	06/30/16	06/30/15	06/30/16	06/30/15
Education	279,366	299,413	195	865	279,561	300,278
Radio	135,105	146,795	2,695	3,286	137,800	150,081
Press	98,010	97,641	24,022	19,350	122,032	116,991
Audiovisual	85,131	81,739	135	591	85,266	82,330
Other	26,842	24,433	2,859	3,001	29,701	27,434
(-) Adjustments and elimination of ordinary income between segments			(29,906)	(27,093)	(29,906)	(27,093)
Total	**624,454**	**650,021**	**-**	**-**	**624,454**	**650,021**

	Profit from operations	
	06/30/16	06/30/15
Education	(2,873)	(7,155)
Radio	2,301	10,513
Press	1,261	(5,134)
Audiovisual	7,367	7,355
Other	11,777	26,370
Total profit for the segments reported	**19,833**	**31,949**
(+/-) Elimination of internal profits (between segments)	(16,968)	(5,215)
(+/-) Income tax and/or profits from discontinued operations	18,039	(54,265)
Total profit before tax from continuing operations	**20,904**	**(27,531)**

	Assets	
	06/30/16	12/31/15
Education	495,888	548,137
Radio	410,352	417,406
Press	157,753	165,410
Audiovisual	316,302	328,001
Other	763,130	904,438
Total	**2,143,425**	**2,363,392**

(14) RELATED PARTY TRANSACTIONS

The transactions performed with related parties in the six months ended June 30, 2016 and in 2015 were as follows (in thousands of euros):

	06/30/2016			06/30/2015		
	Directors and executives	Group employees, companies or entities	Significant shareholders	Directors and executives	Group employees, companies or entities	Significant shareholders
Finance expenses	-	231	9,545	-	-	9,177
Services received	-	140	7,932	-	410	7,258
Leases	-	471	1,604	-	459	530
Purchase of goods	-	-	15	-	-	82
Other expenses	6,220	87	82	7,090	65	130
Total expenses	**6,220**	**929**	**19,178**	**7,090**	**934**	**17,177**
Finance income	-	54	-	-	54	-
Dividends received	-	-	-	-	5,632	-
Provision of services	-	1,263	4,302	-	1,410	3,869
Leases	-	-	15	-	-	-
Other revenue	-	75	433	-	-	1,041
Total revenue	**-**	**1,392**	**4,750**	**-**	**7,096**	**4,910**

All related party transactions have taken place under market conditions.

Transactions with directors and executives

The aggregate amount of EUR 6,220 thousand corresponded to the remuneration received by directors and executives as detailed in note 15.

Transactions between Group employees, companies or entities-

The aggregate amount of EUR 929 thousand is mainly includes the expenditure derived from the leasing of frequencies of radio with companies.

Finally, the aggregate amount of EUR 1,263 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., as well as revenues from advertising sales to associated companies.

Transactions between with significant shareholders -

The aggregate amount of EUR 19,178 thousand mainly consists of expenditure on telephony and internet by Prisa Group companies with Telefónica, S.A., the expense by the leasing of offices in Tres Cantos with Telefónica, as well as interest accruing on credits granted by major shareholders to Prisa Group companies.

Meanwhile, the aggregate amount of EUR 4,750 thousand mainly consists of income of Prisa Group companies for advertising services with Banco Santander, S.A., Caixabank, S.A. and Telefónica, S.A.

The detail of other transactions performed with related parties in the six months ended June 30, 2016 and in 2015 is as follows (in thousands of euros):

	06/30/2016		06/30/2015	
	Group employees, companies or entities	Significant shareholders	Group employees, companies or entities	Significant shareholders
Financing agreements: loans granted	443	-	1,548	-
Financing agreements: loans received	-	6,000	-	-
Guarantees and collateral received	-	-	-	6,000
Other transactions	-	100,742	-	42

Transactions with significant shareholders-

The amount of EUR 6,000 thousand corresponds to a new credit facility with Banco Santander.

The amount of EUR 100,742 thousand correspond to the subscription of a mandatorily bond convertible into newly issued ordinary shares of Prisa, by HSBC Bank Plc., Caixabank, S.A. and several companies of Grupo Santander, through the conversion of financial debt *(see note 8)*.

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

In the six months ended June 30, 2016 and 2015, the consolidated companies registered the following amounts in respect of remuneration to Prisa's Board members and executives:

	Thousands of euros	
	06/30/16	06/30/15
Fixed remuneration	1,105	1,259
Variable remuneration	1,161	1,413
Attendance fees	280	203
Bylaw-stipulated directors' emoluments	683	683
Other	64	198
Total remuneration received by Board members	**3,293**	**3,756**
Total remuneration received by executives	**2,927**	**3,334**

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

Remuneration of the Directors:

<u>Regarding the first half of 2016:</u>

i) The overall compensation of the Board of Directors includes the remuneration of Ms. Arianna Huffington, Ms. Agnés Noguera Borel, Mr. Borja Pérez Arauna and Mr. Claudio Boada Pallerés, who ceased as directors during the first half of 2016.

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

- Annual variable compensation (bonus): reflection of the amount corresponding to theoretical annual variable compensation of the directors if management objectives are achieved. However, since this compensation is subject to achievement of the management objectives at the end of the year 2016, 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 2015 bonus paid in April 2016.

- Long-term variable remuneration of the executive director Mr. Jose Luis Sainz payable in shares of Prisa in 2017, subject to compliance with the strategic plans of the Group and their personal performance for the period 2014-2016 in accordance with the provisions of his contract: the above table includes the accounting expenses recorded in the income statement of the first half of 2016.

- Long-term variable remuneration (long-term incentive or ILP) of the executive director Mr. Manuel Polanco Moreno, authorized by the Annual Shareholders' Meeting held on April 28, 2014, to be settled in the year 2017 into ordinary shares of the Company and cash, and linked to the fulfilment of long-term goals: the above table includes the accounting expenses recorded in the income statement of the first half of 2016.

iii) Likewise it is stated that the following compensations of the Executive Chairman, Mr Juan Luis Cebrián Echarri, settled in shares in 2016, are not included in the table above because the corresponding accounting expenses were recorded in the income statement of previous years:

- Variable multiyear incentive (settled in shares in April 2016). Notwithstanding the accounting regularization made after the settlement of this compensation, is included in the table above.

- 2013 annual variable remuneration (which was partially paid in cash in the year 2014 and with Prisa shares in February 2016, according to the terms of his contract).

iv) No other credits, advances or loans occurred, nor were pension obligations incurred, in respect of the Board of Directors during the first half of 2016.

Remuneration of Senior Management:

<u>Regarding the first half of 2016:</u>

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. Fernando Martínez Albacete, Mr. Antonio García-Mon, Ms. Bárbara Manrique de Lara, Ms. Noelia Fernández Arroyo, Mr. Miguel Angel Cayuela Sebastián, Mr. Andrés Cardó Soria, Mr. Manuel Mirat Santiago, Ms. Rosa Cullel and Ms. Virginia Fernández.

The remuneration of Mr Antonio Alonso Salterain until his resignation as Chief Revenue Officer, in June 2016, is also included within the total compensation of senior management.

ii) The aggregated remuneration of senior management of Promotora de Informaciones, S.A. and other companies of its Group, during the first half of 2016, is the accounting reflection of the overall compensation and includes, inter alia:

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

- Regularization of 2015 bonus paid in April 2016.

- The accounting provision of long-term variable remuneration (ILP) approved by the Ordinary Shareholders' Meeting held on April 28, 2014, to be settled in the year 2017 into common shares of the Company and cash, subject to achievement of the management objectives.

(16) GUARANTEE COMMITMENTS TO THIRD PARTIES

At June 30, 2016, the companies of Grupo Prisa had furnished bank guarantees amounting to EUR 73,884 thousand.

For this amount, EUR 50,000 thousand correspond to the litigation for football rights of Audiovisual Sport, S.L.

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

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

(17) ONGOING LITIGATIONS AND CLAIMS

On July 24, 2006 Audiovisual Sport, S.L. ("AVS"), Sogecable, S.A.U. (now 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.

In that agreement, the parties agreed to provide AVS with all agreements governing the rights of various football Clubs for their joint exploitation by the latter company. In addition, it was also agreed to sell to Mediapro the rights for the exploitation of freeview television and the exploitation rights in international markets, as well as Mediapro’s entry into AVS’s share capital.

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, something that happened with the judgment dated January 9, 2015 (explained below). Therefore, overpassed the September 14, 2015, Mediapro requested the waiver of the suspension and the continuation of the proceeding in relation to the interim measures of October 8, 2008. With a judicial order of September 28, 2015, the Court has agreed to continue with the process and has requested a judicial third party to determine, considering the Supreme Court ruling, the amount of possible damages caused with the adoption of the interim measures, granting a term to complete that exercise until February 2017.

In addition, in its judgment of March 15, 2010, the Court fully upheld the claim filed by AV, dismissing the counter-claim brought by Mediapro against AVS, Prisa and TVC. In its judgment, the Court ordered Mediapro to pay AVS more than EUR 95 million by way of outstanding amounts owed to AVS under the provisions of the agreement of July 24, 2006, as well as by way of damages arising from the above mentioned breaches. The judgment also ordered Mediapro to provide AVS with the contracts concluded by the latter with the football clubs and to inform them of the assignment of those contracts in favour of AVS.

Mediapro appealed against this judgment (*recurso de apelación*), and AVS requested its provisional enforcement on June 9, 2010. In an order issued on June 21, 2010, the Court dispatched the enforcement requested, although the enforcement was suspended following the application and subsequent declaration of Mediapro's bankruptcy, which is being dealt with by Barcelona Commercial Court number 7 (bankruptcy number 497/2010).

In a ruling dated November 14, 2012, the Provincial Court of Madrid essentially confirmed the lower court's judgment, finding in favour of Mediapro's appeal only with regard to the length of the contract of July 24, 2006, which it declared terminated at the end of the 2008/2009 season.

AVS filed an appeal to the highest instance (The Supreme Court) and alleging a procedural infringement against the said judgment. The Supreme Court, in its judgment dated January 9, 2015, partially admits the first argument of the Meadiapro appeal for procedural infringement and condemns Mediapro to pay AVS EUR 32 million plus interests (amount that has been duly settled and paid off during 2015 tax year). The judgment enters into the question not solved in the Provincial Court of Madrid in relation to the claim of nullity of the clause fifth of the Agreement dated July 24, 2006. The Supreme Court declares that the ruling of the *Audiencia Nacional* dated 22 May 2013, which is firm and confirms the Ruling of the CNC dated April 14, 2010 that declares the nullity of the t clause fifth of the Agreement dated July 24, 2006, is contrary to article 1 of the LDC. The consequence is the entire nullity of the Agreement. Moreover, the ruling extends the effects of such nullity to the clause fifth of the Agreement, since all clauses of the agreement tried to restring the competition.

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.

On the other hand, a complaint was filed on May 12, 2016 at the Civil Trial Court in Colmenar Viejo in which Mediaproducción, S.L.U. and Imagina Media Audiovisual (the "Plaintiffs") have petitioned the court to find AVS and DTS 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 104.6 million 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 fulfil its obligations, Mediapro would proceed to reimburse DTS for the amounts already delivered (thus, DTS announced that it would not pay the EUR 91,200 thousands that it owed under the contract at June 15, 2010). According to Mediapro, the petition for execution of judgment, together with DTS's concerted breach of the June 4, 2009 contract undermined the basis on which Mediapro's 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, Mediapro considers that AVS and DTS intentionally provoked its 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. The limitation period for AVS to file an answer to the complaint was told by DTS's filing of a motion challenging the court's jurisdiction, alleging that Mediapro's action is a complaint for breach of contract (the contract signed with DTS) in which the parties submitted to the jurisdiction of the courts of Madrid and, thus, only a court in Madrid would be competent to hear the complaint.

On the other hand, the contract for the sale of shares concluded between the member Televisió de Catalunya Multimedia, S.L., Televisió de Catalunya, S.A., Prisa and AVS on October 15, 2009 also provided for the abandonment of all ongoing court cases in which any of these companies or their legal representatives were parties as defendants. At present, those cases have been abandoned but the said contract is still awaiting the authorisation of the *Generalitat de Catalunya* Government, as its effectiveness was made subject to such authorisation.

The Company's Directors, internal and external legal advisors do not believe that resolution of this litigation will entail any relevant liabilities not registered by the Company.

In addition, the Company has other litigation for smaller amounts. The Directors, internal and external advisors do not consider that any relevant liabilities will arise from this litigation.

(18) EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred since June 30, 2016 until the date of approval of these condensed interim consolidated financial

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

Consolidated Directors' Report for the six months ended June 30, 2016

PROMOTORA DE INFORMACIONES, S.A. (PRISA)

AND SUBSIDIARIES

CONDENSED CONSOLIDATED DIRECTOR'S REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2016

1. BUSINESS PERFORMANCE

Key highlights for the first half of 2016 include:

- Group **operating income** in 2016 amounted to EUR 624.5 million (-3.9%) and **EBITDA**[1] to EUR 86.5 million (+1.6%).

- **Advertising revenue** totaled EUR 235.1million (-3.0%), with a +1.0% increase in advertising in Spain (due to online advertising and sponsorship growth), and a +5.5% increase in Portugal (above market growth). Latin America radio showed difficulties due to macroeconomical and radio advertising industry deceleration, especially in Colombia and Chile. Also there is a significant impact due to foreign exchange (FX).

- **Latin America and the US** represented 46.4% of the Group's revenues and 82.3% of EBITDA.

- **Cost cutting** control continued throughout the Group, with resources allocated to growth, mainly in Santillana and Radio. Expenses were down 4.8% affected as well by FX impact.

- **Capex increased** mainly due to Santillana's protypes in Spain (due to curricular changes in Cataluña and Pais Vasco) and the new newsroom in El País (in line with a more digital perspective of business).

- Operating revenues in **Education**, amounted to EUR 279.6 million (-6.9%), with a negative currency effect of EUR 57.0 million. Excluding the foreign exchange effect, revenues would have increased (+12.1%). EBITDA reaches EUR 60.7 million (-5.7%). Excluding the foreign exchange, EBITDA increases +26.7%, comparing to 2015.

  In the first half of 2016, South Area Campaigns have finished their campaign in almost all the countries. In local currency, as a whole, revenues have grown, except in Brazil. Brazil decline is offset by Peru's growth due to institutional sales.

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

Digital Education Systems (UNO & Compartir) continue their expansion in Latin America, improving profitability and growing in the number of students.

- **Radio** operating revenues amounted EUR 137.8 million (-8.2%), with a negative currency effect of EUR 10.7 million, and EBITDA reached EUR 13.4 million (-30.1%) basically due to Latam. Excluding the currency effect, EBITDA decreases -28%.

  Advertising revenues in Spain descend -4.0% (national advertising grows +2.5%, but local advertising declines -5.9%) and throughout Latin America in local currency, decreases -5%. Colombia and Chile reflect the difficulties in the advertising market due to macroeconomical issues.

- In the **Press** division, income increased +4.3% at EUR 122 million. Digital advertising, events and promotions growth offset lower traditional advertising revenues and circulation.

  Total advertising revenues grew +8.6% (El País +8.5% and AS +23.9%). Traditional advertising suffered a -5.0% decline, compensated with an excellent performance of digital advertising revenues that increased 20.4% and higher events (+135%). There is also an increase in promotion revenues (+15.4%). Circulation revenues decline (-2.8%) although less than the newspapers circulation descend, due to an increase in the retail price in El País.

- **Media Capital**, operating revenues reached EUR 85.3 million (+3.6%) and EBITDA amounted EUR 17.3 million (+5.1%). Advertising revenue advanced 5.6%, with good performances in TV (+5.5%) and radio (+5.5%), above market performance. Called value-added revenues dropped, but they were offset by the increase of advertising revenues, distribution of channels in Pay TV platforms and the cost control allowing EBITDA to grow above 2015.

- The Group continues to press on with its **refinancing plan** and in the first half of 2016 it has carried out a series of transactions under the scope of its debt-reduction commitment. The Net Bank Debt reached in June EUR 1.562 million, with a reduction of EUR 98 million, regarding December (EUR 1.660 million). In the first semester debt buy backs operations took place and in June the mandatory bond issue was registered, reducing debt in EUR 100.7 million.

- Other key highlights of the first half of 2016 are:

  - Santillana's and Carvajal S.A. have formalized the agreement to acquire Norma for COP 60 billion. The transaction is pending the Competition and Markets Authorities approval.

  - In 2015, there were two price adjustments, amounting EUR 36 million, from Canal+ sale to Telefonica, pending to be resolved. Both have been resolved in favor of Prisa, therefore the final transaction price was EUR 724 million.

2. PRINCIPAL RISKS ASSOCIATED WITH THE BUSINESS

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

- Strategic and operational risks.
- Financial risks.

Strategic and operational risks of the business of the Group

Macroeconomic risks-

In 2015, growth rates in Spain and Portugal were positive. After the important slowdown and volatility experienced in recent years, from year-end 2013, a change in this trend was shown and was consolidated in 2014 and 2015. During 2016 growth forecasts for Iberian economies are maintained.

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

Furthermore, the activities and investments of Prisa in Latin America are exposed to the evolution of the various macroeconomic parameters of each country including a potential decline in consumption as a result of a slowdown in the growth rate in some of these countries, or recession in the economies.

Brazil is maintained as the economy with the greatest structural risk in the Latin America region, although it showed signs of stabilization during the first months of the year, mainly with respect to inflation. The political situation remains as the main risk of the country. Colombia grew in the year although with risks related to inflation. Chile showed certain signs of acceleration and grew during the first quarter of the year. Mexico maintained a stable growth and Argentina remained immersed in its economic transition process. In general terms, macroeconomic forecasts are showing growths in most of the countries except Argentina and Brazil.

During 2015, the Group's results in Latin America were negatively affected by the weak exchange rate in the region. In the first six months of 2016 the exchange rate continued to affect negatively to most of the countries where the Group operates in comparison with the same period of 2015. This trend is expected to moderate by year end, although volatility in Latin American exchange rates remains high.

Maintenance of exchange rates at current levels or even further deterioration could have an adverse effect on operating results and financial condition of the Group.

Decline in advertising markets-

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

In case that the Spanish and Portuguese economies failure to improve as expected or growth in Latin America slow down or even decline in some countries, prospective spending by the Group's advertisers could undermine. In view of the grate component of fixed costs associated with business with a high component of advertising revenue (mainly Radio, Press and Television), a drop in advertising revenues directly impacts operating profit and therefore the ability to generate cash flow of the Group.

Drop of circulation-

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

Competition risk-

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

Sector regulation-

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

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

Country risk-

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

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

Litigation risks-

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

Digital activity and safety net systems-

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

Technological risks-

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

In addition, services for managing information technology and developing R&D+innovation projects in some of the companies of the Group are outsourced to Indra Sistemas, S.A. ("Indra"). If these services were not to continue or were transferred to a new services provider, the operations of the Group could be affected.

Financial Risks

Financing risks -

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

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

During 2014, 2015 and the first half of 2016, the company paid off a total of EUR 1,727,803 thousand using the proceeds from the sale of Mediaset España, DTS and the increases in capital subscribed by Consorcio Transportista Occher, S.A. de C.V. and International Media Group, Sá.r.l. Additionally, during the first six month of 2016 financial debt was reduced by EUR 100,742 thousand due to the issuance of mandatorily convertible bonds into newly issued ordinary shares of Prisa through conversion of financial debt of the company.

These operations allowed the Group to fulfill in advance commitments of debt reduction included in the refinancing agreement at December 31, 2015, in such a way that the next relevant financial commitment is to fall due in 2018, when Tranche 2 falls due for a total amount of EUR 956,512 thousand.

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

As of June 30, 2016, the level of the Group net bank debt[2] (EUR 1,562 million), imply certain risks:

[2] Net bank debt includes non- current bank borrowings and current bank borrowings, excluding loan arrangement costs, diminish by current financial assets, cash and cash equivalents.

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

Equity situation of the parent company of the Group-

The equity situation of the parent company of the Group has been affected in the past by losses from registering the sale agreement of 56% of DTS which led to the automatically converted Tranche 3 debt into participating loans, in order to restore the equity balance, as shown in the Group's financing agreements (*see note 9 "Financial Liabilities" in the accompanying explanatory notes*).

At June 30, 2016 the equity of the Company with respect to the cause of dissolution and/or reduction of capital stipulated in Spain's Corporate Enterprises Act (including participating loans outstanding at end) stood at EUR 161,078 thousand, which was over two thirds of the share capital.

Additional losses to be registered by the Parent Company could result again in an equity imbalance situation.

Liquidity Risk-

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

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

Additionally, the group analyzes on a recurrent basis other financing sources to cover short and medium term liquidity needs. However, as of June 30, 2016, the Group still maintains a net bank debt level of EUR 1,562 million.

Minority interests -

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

Interest rates risk exposure-

Approximately 64.58% of its bank borrowings terms are at variable interest rates, and therefore the Group is exposed to fluctuations in interest rates. Currently the Group has no interest rate hedges arrangements.

Fluctuations in foreign exchange rates-

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

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

Tax risks-

Tax risks of the Group are related to a possible different interpretation of the rules that could make the competent tax authorities.

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

Directors believe it likely that the group will recover the tax credits, recorded as advances due to payment of VAT settlements resulting from different inspections carried out by the Tax Authorities where they deem Prisa should limit the deductibility of VAT paid on acquiring goods and services as it makes certain transactions that are not entitled to full deduction (mainly, intra-group financing and the buying and selling of shares and securities). Said settlements are being appealed at different administrative or judicial bodies, as set out in note 7 of the attached explanatory notes. The company has reports from two top legal practices that support the criteria used by the company. Nevertheless, there is a risk that final decisions against the company may be issued by the different legal proceedings which supporting the criteria used by the authorities.

3. OUTLOOK

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

During 2016, growth expectations for Iberia continue.

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

According to the IMF macroeconomical scenario (April, 2016 estimates), in Latin America the GDP evolution in 2016 hast been uneven, while some countries like Brazil have a complicated situation (political risk), or Argentina (economical transition) others like Mexico, Peru, Chile or Colombia have shown growth. Growth trend will continue in these countries in 2017 according to the IMF, while Brazil is expected to stop falling and Venezuela will lower its fall. The Group is sensitive to these macroeconomical inputs.

Group´s results of June, in Latin America have been negatively impacted by the weakness of the exchange rate in the region. Excluding the impact of the exchange rate, Latin America´s results continue to show growth in local currency, thanks to growth in countries like Peru, which offsets the fall in Brazil (associated with the transfer of students from private schools to public schools by the macroeconomic situation).

For the end of 2016, the results in euros of Education and Radio will continue to be affected by the evolution of exchange rates but it is expected that the negative currency effect at the end of the year end moderates. In any case, the volatility of Latin American exchange rates remains high.

Another variable influencing future performance is the advertising cycle. However, Prisa's exposure to the evolution of the advertising market is limited due to the diversification of its income (advertising revenues represent 37.7% of the total revenues of the first half of 2016). Advertising-dependent businesses have a high percentage of fixed costs, so the increase in advertising revenues significantly impacts on the results, which implies an improvement of margins and cash position of the Group.

Digital advertising is increasing significantly. Specifically, it increased by 18.3% in the first half of 2016 and in the Press Business Unit it now represents 40% of advertising revenue (36% in June 2015). It is expected that the growth trend will continue in the rest of 2016.

During 2015 advertising market grew in Spain +5.8% according to public sources (i2p). The same source estimates for 2016 that growth will continue in the Spanish market with a +5% increase.

In Spain, Group's advertising revenues increased +1.0% in the first half of 2016, thanks to the evolution of digital advertising and events which offset the lower local advertising on Radio. For 2016 is estimated advertising revenues growth above the market, supported by digital growth, special events and a better performance of Radio advertising in the second half of the year.

In Portugal, the recovery of the advertising market started at the end of 2013, continuing in 2014. In 2015 the Portuguese market suffered a slowdown due to the economic situation of the country and continues for 2016. However, in this context, advertising revenues of Media Capital increased by 5.6% over the first half of 2015 with a Portuguese market that barely grows. By the end of 2016 it is expected that advertising growth will continue in television, radio and internet.

In Latin America, according to Zenith Optimedia (December 2015), the advertising market will grow in 2016 +1.2, at constant exchange rates. Prisa Radio in Latin America in the first half fell by -4.7 % at constant exchange rates, affected by the political, economic and social situation in Colombia and Chile combined with the complicated situation in the advertising Radio industry in both countries. By the end of 2016, it is expected an improvement from the trend of the first half of the year.

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 2016 contributed 44.8% of the Group's total revenues and 70.2% of its EBITDA. In Latin America, revenues fell by 9.1% over the same period because of the negative currency effect. Excluding the foreign exchange effect, Education increases +12.5% due to Peru’s institutional sales and South Area Campaigns growth, except in Brazil due to macroeconomical issues. South Area Campaings evolution, as a whole, has been positive overall in local currency in 2016. North Area Campaigns will have an impact in Q3. Sales registered in the first half show only the start of campaign showing some advance of sales over the same period of last year. On the other hand, Digital Education Systems (UNO & Compartir) continue their expansion in Latin America, improving profitability in local currency and growing in the number of students. The evolution of the second half in what refers to Digital Education Systems depends essentially on the recruitment of students in the countries of North Area Campaigns.

Part of the Group's growth for 2016 will rely on digital growth. Digital audience numbers rose sharply (120.0 million unique browsers at June 2016, up 13% from last year). In 2016, the Company will continue its efforts to boost digital growth in all its business lines. Specifically, in Press the focus will remain on fully leveraging the leadership positions of El País and As newspapers, not only in Spain, but also in the American market, in addition to increase the digital video advertising.

In this macroeconomic environment, in 2016 a key priority for the Group continues to be costs and investment control, focusing resources for growth businesses, maintaining a strict cost-control policy and adapting the Goup’s productive structures to revenue performance in order to keep profitability of businesses.

In addition, the Group will continue to reinforce its capital structure, debt reduction and control of cash generation during the second half.