

## **THE SPANISH ECONOMY 2017**

The data on economic developments available at the date of preparation of these consolidated financial statements indicate that in 2017 the Spanish economy will have advanced 3.1%, equalling the record of the previous two years to show that the recovery that began in 2013 has been stably maintained over time in spite of the Catalan political crisis, but while it could have some effect on economic activity, it seems to be rather limited in scope and in line with what was expected. It is also estimated that private consumption could have grown by around 2.5% in the year, a figure that, although five tenths below the record of the previous year, confirms a positive figure in a component of the GDP that is very relevant for our sector.

In terms of employment, this good evolution of the economy could have resulted in a fall in the unemployment rate to 16.1% at year end, with a net creation of employment in the period of around 500,000 people.

This growth continues to be higher than the average for the Eurozone countries, whose increase is estimated to be around 2.4% in 2018, after the considerable improvement experienced in 2017, a year in which these economies have reached higher records as expected, noting the best growth data since 2007, with countries, such as Italy and France, which after years of very sharp decline have seen their GDPs grow well above the averages of the last years.

As for the rest of the world, it is estimated that the average growth will be around 3.6%, while in the United States we find a 2.2% advance that positively compares to the +1.6% record experienced in the previous year.

The Latin American economies also show signs of improvement, given the case (we refer mainly to Brazil and Argentina, two of the largest countries in the region) that the negative growth we witnessed in previous years has turned positive, while Mexico continues along a path of stable growth despite the uncertainties related to the potential impact of the protectionist trade measures defended by President Trump.

With regard to Asia and, especially, to China as the largest economy in the area, the growth records show continuity in relation to those of previous years without, at the moment, showing signs of the observed trend stopping.

On the other hand, and in spite of the nervousness caused by the populist movements that triumphed in 2016 and among which the apOproval of Brexit and the election of Donald Trump as president of the United States in November of that year stand out in a very significant way, the result of the electoral processes carried out in 2017 (particularly in France and Germany) seems to have confirmed a climate of greater stability and orthodoxy with regard to economic policy.

## Mediaset España Comunicación, S.A. and Subsidiaries

### CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017

(Expressed in thousands of euros)

At the date of preparation of these consolidated financial statements, it seems that in 2018 we will see a continuation of the good economic management noted in 2017, both in terms of the United States, where the expansive fiscal policies put into operation by the Trump Administration allow us to expect higher growth than that experienced in 2017, as in Europe, where the GDP of the EU countries is expected to rise above 2%.

As for Spain, the estimates point to a GDP evolution that is still above the European average, although somewhat more contained than in previous years (the consensus is 2.6%), but which would ultimately guarantee positive behaviour of private consumption and also an additional reduction in the unemployment rate up to (always according to the consensus of analysts) levels of around 15%. This lower growth is explained by the rise in oil prices, a lower momentum of the expansionary monetary policy, the exhaustion of domestic demand, a neutral fiscal policy and some residual effect of the Catalan political situation.

It is expected, therefore, that all components of private demand will grow in 2018 in Spain, with private consumption rising.

In this environment of moderate but steady growth, it remains to be determined whether finally the European Central Bank (ECB), in view of the positive developments in the Eurozone economies and the emergence of positive inflation rates will begin to change the expansive monetary policy put into practice in recent years, which would imply a rise in interest rates, which are currently at historic lows. In these moments it seems reasonable to speculate that the ECB will be cautious and that it will modify its policy only when the structural imbalances that justified the quantitative easing measures have disappeared and unequivocal confirmation of the absence of deflation as well as the transit through a path of sustained economic growth have been unequivocally confirmed.

## ORGANISATIONAL STRUCTURE

The corporate purpose of Mediaset España Comunicación, S.A. is the indirect management of the public television service. As of December 31, 2017, it commercially operates seven television channels (Telecinco Fiction Factory, Boing, Cuatro, Divinity, Energy and BeMad). Additionally, it is the head of a Group of companies known as Grupo Mediaset España Comunicación.

The Share Capital of the Parent Company is distributed as follows at the close of the 2017 and 2016 fiscal years:

Owner	2017	2016
	% Interest	% Interest
Mediaset S.p.A.	50,20	50,20
Free float	47,04	49,80
Treasury shares	2,76	-
<b>Total</b>	<b>100,00</b>	<b>100,00</b>

DISCLAIMER: The English version is a translation of the original in Spanish for information purposes only. In case of a discrepancy, the Spanish original will prevail.

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

The activity of the Group focuses on the exploitation of advertising on the television channels of which it is a concessionaire, as well as the performance of analogous and complementary activities related to said activity, such as:

- Audio-visual production
- News agency
- Promotion Advertising

### **THE TELEVISION BUSINESS IN 2017**

As indicated in the Management Reports accompanying the consolidated financial statements for the years 2015 and 2016, investment in TV advertising grew by 6.4% in the former and 5.5% in the latter, records which, sequentially, showed a very slight decreasing behaviour in terms of margins that was explained because, on the one hand, the comparisons with the previous years were increasingly demanding and, on the other, because TV advertising had begun to take off at least six months before the economy as a whole took off, a factor that tended to displace the bases of comparison as the cycle became established.

With regard to 2017, official TV advertising market data released by Infoadex shows growth of 1%, a significant lower figure than last year and lower than the increase in GDP experienced during the year.

In fact, this final figure is a reflection of the great year-on-year volatility that has been observed throughout the year, with very different quarterly evolutions and, particularly, with a second quarter that, after a robust start to the year, recorded a negative development, something that has not occurred since before the start of the market recovery.

As of July, advertising started to behave in a slightly more positive way with respect to the previous year, demonstrating that, although flatter than in the initial phase of the advertising recovery cycle after 2013, in which the growth multiple was several times higher than GDP, its evolution was still correlated with it.

In any case, as already stated in the Annual Corporate Management Report for 2016, this year has confirmed that advertisers remain very careful in planning their campaigns and very tactical in deciding at what point to invest, which has resulted in greater market volatility both month by month and each quarter.

On the other hand, the 2017 data confirms once again that TV advertising continues to be the predominant medium in the global advertising market as a whole, with a weight of 40%, that is, only five tenths less than the percentage recorded in 2016, and this is despite the strength shown by online advertising, which, with the data available at the date of preparing this Management Report, already reaches 28.9% of the global advertising.

DISCLAIMER: The English version is a translation of the original in Spanish for information purposes only. In case of a discrepancy, the Spanish original will prevail.

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

Once again, television consumption (measured in minutes per viewer and day) has continued to show strength since, although with decreases from the historical highs reached in mid-2013 (data which, on the other hand, were surely inflated by the severity of the economic crisis), it continues to record some of the highest figures in our environment, which is undoubtedly a clear sign of the good health of the television medium as a commercial communication tool.

As for prices, they have continued their recovery in the year, albeit at a slower pace than in previous years, it estimated that at year-end half of what was lost from the market highs registered in 2007 would still have to be recovered, while advertising occupation approached levels close to full occupancy in the year.

Regarding Mediaset Group, it is worth noting that in 2017 we have achieved a share of 43.3% of investment according to Infoadex data, a record identical to that of 2016, which is worthy in itself, as in 2017 there was no important sporting events, whereas in the previous year the football European Championship hosted by France was broadcast. This percentage places us 1.9 points away from our main competitor, which scores 41.4%, a distance 0.7 points higher than in 2016.

"As for the audience, the data of the year" show that our Group continues to be a world leader with a 27.3% audience share and marks a 0.8 points difference with our main competitor, all this in a year in which no relevant sporting events have been broadcast and the new channels that were granted at the end of 2015 have been fully operative throughout

The Telecinco channel has once again led the audience with 12.4%, 1 tenth of a difference from its main competitor while Cuatro reached 5.9% and the rest of the thematic channels of the Group 9%, that placed them at a distance of 1.7 points compared to its main competitor's the thematic channels, all in a television year which, in the last part, was marked by the impact of the Catalan crisis in terms of audiences and their political news component.

Comparing the Group's results in 2016 with those of 2017, the following can be seen:

- Operating income increased from 991,983 thousand euros in 2016 to 996,257 thousand euros in 2017, mainly due to the increase in advertising revenues during the year.
- Operating expenses go from 767,548 thousand euros in 2016 to 750,917 thousand euros in 2017, a reduction that reflects both the impact of the European Football Championship in the previous year and the continuation of the traditional cost management model that is fundamental part of the Group's business strategy.

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

- Finally, the Parent Company's net result for 2017 stood at 197,496 thousand euros compared to the 170,997 thousand euros recorded in 2016, a very significant improvement that is primarily explained by the recovery of operating margins experienced in the year as result of both the increase in operating income and, in particular, from the control of expenses.

### **DIVIDENDS**

In 2017, an ordinary dividend was distributed with a charge to the 2016 results amounting to 147,201 thousand Euros, a figure that was supplemented by an extraordinary dividend of 28,519 thousand Euros.

### **INVESTMENT IN RIGHTS AND IN CINEMA**

The Mediaset España Group continues with its investment in audio-visual rights policy, applying a careful selection in terms of type and content in order to sustain future audience ratings and ensure optimal advertising exploitation.

Likewise, the Group places special emphasis on investment in national production series.

The activities undertaken by Telecinco Cinema are worth highlighting, a wholly owned subsidiary of the Group in charge of the legally required film production of TV concessionaires to allocate 3% of operating revenue towards Spanish and European film production.

As investment in film production arises from a legal obligation and not a decision made freely by the network, the Group has opted for quality and ambitious projects based on global strategic criteria guiding its activity in this field. Where possible, it opts for productions of a certain size and scope that are apt for international showing, taking into account market conditions and the Group's financing capacity, as this obligation outweighs the revenues generated, regardless of the trend and without any consideration to costs incurred or margins obtained.

In short, the aim is to efficiently combine financial capability, talent, profitability, and opportunities for our brightest and most promising professionals in order to maximise the return on investment -in light of global conditions, maximum importance is attached to this- considering that the activity is not voluntary, and to produce films that combine quality and commercial appeal under the Group's distinctive logo.

In line with the fantastic results obtained in 2015 and 2016, 2017, once again this was an extraordinary year, with four productions released which, as a whole, have attracted 8 million spectators and raised 47 million euros, which is no less than 48% of the box office raised by the 188 Spanish films released in the year. Those titles are:

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

“Es por tu bien”: a comedy that grossed 9.5 million euros and was seen by 1.5 million viewers in theaters, currently negotiating the possibility of selling "remake" rights to several countries.

“Tadeo Jones and the Secret of King Midas”: directed by Enrique Gato, this is the second part of the adventures of this animation hero. Takings of almost 18 million euros and 3.2 million viewers in cinemas, he won the Goya Award for the best animated film.

“Marrowbone”: is Sergio G. Sánchez's debut film, screenwriter of, among others, "El Orfanato" and "The Impossible"; premiered in October, it took 7.3 million euros, was seen by 1.2 million viewers and has been sold internationally in more than 80 territories.

“Perfectos Desconocidos”: was released in December, it is undoubtedly the comedy of the year, at the date of preparation of this Management Report it had grossed more than 20 million euros and still present in the Top 10 Spanish box office. It is a "remake" of the successful Italian production of the same title and, directed by Alex de la Iglesia, and has a cast of top actors and actresses.

With regard to 2018, four fiction feature films and a documentary will be released, namely:

“El Cuaderno de Sara”: released in early February, it has grossed 3 million euros at the date of preparation of this Management Report and continues at the top of the box office rankings.

“Sanz”: is a documentary that revolves around Alejandro Sanz and his work, its premiere scheduled for the month of April.

“Yucatán”: will arrive in theatres at the end of August. It is a comedy directed by Daniel Monzón, who has already directed "Celda 211" and "El Niño". Its central characters are Luis Tosar and Rodrigo de la Serna.

“Superlópez”: is the film adaptation of the famous Spanish comic. Directed by Javier Ruiz Caldera and starring Dani Rovira, it will reach the screens in November.

2018 will be an intense year for filming: In June “Lo dejo cuando quiero” will begin shooting, a remake of the popular Italian comedy "Smetto quando voglio" will be directed by Carlos Theron (“Es por tu bien”) while in summer filming will begin on the high budget English thriller "Waydown" directed by Jaume Balagueró (Sleep Tight, REC) and, in October “Si yo fuera rico” a remake of a French comedy that will be filmed by Álvaro Fernández Armero. Finally, at the end of the year Salvador García Calvo ("Los últimos de Filipinas ") will move to Africa with "Un mundo prohibido", a story of child's survival in an environment of misery. In the same month the filming of the third part of the Adventures of Tadeo Jones will begin.

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

#### **INTERNET**

Our Group has reinforced its commitment to digital activity during 2017, in the overall calculation of the year the company has managed to become the company with the largest video consumption online in the audio-visual sector with a monthly average of 81.1 million videos viewed compared to the 59.4 million registered by its main competitor. In addition, and with an average of 348 million minutes seen per month, it is placed sixth in the global Internet ranking after Google Sites, Openload, Facebook, Vevo and Broadband TV.

Once again, the users loyalty towards the Mediaset España's webs has been demonstrated throughout the year, registering a monthly average video consumption per viewer that stands at 3 hours and 53 minutes, a figure far ahead of that which its main competitor has (1 hour and 37 minutes).

On the other hand, unique users have increased by 8.2% compared to the previous year to reach 11.5 million, placing Telecinco.es (7.7 million unique users and 26.7 million videos seen as a monthly average in the year) well ahead of its main competitor, which has scored 7.1 and 3.7 million respectively), while Mitele, with an average of 2.5 million unique users and 48 million videos viewed per month, is also ahead of the competition, something which is also repeated in terms of minutes consumed.

It should be noted that during the first half of 2017 the Group's main websites were updated to achieve a better adaptation to both the new technological environment and changing consumer habits, resulting in mobile consumption of our content now exceeding 76%.

These modifications have made it possible to homogenise the browsing experience and optimise the content load while reducing loading times and improving advertising formats without penalising user navigation.

From an editorial point of view, the efforts to reach new audiences have been renewed during the year, especially with regard to the new MTMad Internet video channel, which has boosted the Group's digital content offer and multiplied its value for advertisers and users.

Also, in 2017, new projects have been launched such as a new website with digital content and another dedicated to promoting sports that includes stories of achievement, effort and solidarity.

In the area of children and youngsters, a new entertainment platform has been created in HD and accessible from Mitele.es equipped with parental control.

Finally, at the end of 2017, a subscription alert system was put into operation to better inform users about the news on our websites and efforts have been multiplied to improve our content's positioning on search engines.

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

#### **TREASURY SHARES**

The Company owns 9,282,275 treasury shares whose nominal value as of December 31, 2017 represents 2.76% of the share capital (4,641 thousand euros of nominal value), being below the maximum allowed by the Companies Act for listed companies.

The increases as of December 31, 2017 correspond to the implementation of the Share Repurchase Plan approved on February 23, 2017.

The decreases as of December 31, 2017 are mainly due to the remuneration of employees through shares.

The book value of the treasury shares at 31 December 2017 amounted to 100,500 thousand euros (0 thousand euros at December 31, 2016).

#### **PAYMENTS TO SUPPLIERS**

During 2017, the average payment to the Group's national suppliers was 70 days.

This difference is notable when compared to the maximum stipulated by payment arrears regulations and is exclusively due to the rigorous control exercised by the Group with regard to commercial and tax requirements to be met by invoices received, meaning that they are not paid until the incidents detected have not been resolved. The Group scrupulously meets its commitments with regard to legislation aimed at battling late payments.

#### **MEDIASET ESPAÑA SHARE PRICE**

The year 2017 began in a climate of considerable political uncertainty, derived both from the events that occurred in 2016 ("Brexit", election of Donald Trump as president of the United States) and the relevant electoral processes scheduled for the year (France and Germany fundamentally), all of which seemed to point towards a stock market marked by volatility.

However, the markets' reaction was the opposite to that expected, with most markets observing sustained growth and historical records were reached in the United States, Germany and the United Kingdom.

In this sense, the best behaviours with regard to European markets took place in the FTSE, in the Italian FTSE MIB (+ 13.6% in the year), the German DAX30 (+ 12.5%), CAC40 French (+ 9.3%) and British FTSE100 (+ 7.6%), while the Euro Stoxx50, the European benchmark index that brings together the largest listed companies in the continent, was revalued by 6.5%.

The United States, have reached the most relevant indicators, as previously stated, historical highs; the Nasdaq closed the year with an increase of 28.2% followed by the Dow Jones which grew by 25.1%, while the S&P500 was revalued by 19.4%.



## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

The conclusion is that good macroeconomic data at a global level added to low volatility have encouraged investors to opt for equities.

With respect to Spain, the IBEX35 rose by 7.4% in the year (which is the best figure since 2013), with 24 stocks on the rise and with an interannual evolution marked by a very positive first part (up to May the increase was almost 20% surpassing 11,100 points) and one last evolution marked by the Catalan political crisis that resulted in many investors withdrawing from the market fearful of the possible negative consequences of the process. The final balance was that the market closed positively in seven of the twelve months of the year, reaching minimums on January 23 (9,305 points) and reaching its highest record on May 5 11,120 points), Santander, BBVA and Telefónica being the most traded securities in the year (40% of the total volume thereof).

Regarding Mediaset España, the share price closed the year at 9.36 euros, with a drop of 16.1%. The maximum price was registered on May 4 when it reached 13 euros; from there, and coinciding with the uncertainties concerning the status of a foreign broadcaster, which produced a contagion effect to other operators in the sector, the share price began to fall, until on November 10 it registered its worst record (8.62 euros).

The daily average shares traded during the year was 1,290,029 (equivalent to 14,153 thousand euros), down 19% over the previous year and the total traded volume stood at 3,609.124 thousand euros, with a negative variation of 14.5% with respect to the previous year. The total volume of shares traded stood at 354.3 million compared with 411.5 million the previous year, the month of May being the month in which the most Mediaset España shares were traded, coinciding with the annual dividend payment.

The market capitalization of Mediaset España as of December 31, 2017, was 3,151.339 thousand euros, which ranked it 30th in the Ibex35 and, despite having lost around 603,061 thousand euros in capitalisation in the year, it continued once again as an undisputed leader among the Spanish companies in the sector, with a capitalisation of 33% higher than all of them and making a difference of 1,187,463 thousand euros with respect to its main competitor AtresMedia, which allowed it to position itself in fourth place within of the European broadcasters, immediately behind ITV, Prosieben and Mediaset SpA.

## **CORPORATE GOVERNANCE**

Good practice in corporate governance means establishing rules, principles, and incentives at companies that help safeguard the interests of the company and its shareholders, and guarantee greater transparency in management.

Mediaset España's commitment to the regulations and principles of good governance has been evident since it first was listed on the market in 2004. Since then, our focus has been on adapting our different regulating bodies to the Code of Good Governance

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

as well as others, which were inexistent until now: our Code of Ethics is obligatory for any natural or legal person collaborating in any and all capacities with us, as well as the Rules of Internal Conduct of Mediaset España Comunicación, S.A. and subsidiaries with regards to the stock market.

This also contemplates a review of the quantitative and qualitative composition of the Board of Directors and the Committees in order to comply with recommendations in this regard.

Verification by independent auditors of our Reports of (i) Corporate Governance, (ii) Remuneration Policy (Deloitte) and (iii) Corporate Responsibility (PricewaterhouseCoopers) as well as submitting the latter to a binding vote by the Ordinary General Meeting, which have rated it top among IBEX-35 companies in a study of Corporate Governance compliance, as do other specialized institutions.

Additionally, based on the legal regulations that have come into force in the year, this report is accompanied by the "Non-Financial Information Report" for 2017.

### **HEDGING FINANCIAL RISKS**

The Company uses financial instruments to hedge the impact of foreign exchange differences in connection with transactions (primarily the acquisition of external production rights) denominated in foreign currency. These hedges are designed to offset the impact on the income statement of exchange-rate fluctuations in outstanding amounts payable on these transactions. Specifically, the Group buys foreign currency for the said amounts payable so as to match the forecast payment dates.

### **RISK CONTROL**

The Group's risk management policies are described in Note 13.5 of the accompanying consolidated financial statements.

### **RESEARCH AND DEVELOPMENT**

The Group's biggest investments concentrate on current and future content broadcast by our Group. It does not have a specific R&D department, although innovation is one of our crucial areas of development.

### **ENVIRONMENTAL ASPECTS**

Given the Group's activities, it has no environmental liabilities, expenses, assets, provisions or contingencies that could be significant in relation to the Group's equity, financial position and results.

## **Mediaset España Comunicación, S.A. and Subsidiaries**

CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017  
(Expressed in thousands of euros)

---

### **SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD**

At the date of preparing this Management Report, no significant events have occurred after the end of 2017.

### **CAPITAL STRUCTURE**

The Company's share capital amounts to 168,359 thousand euros, representing 336,717,490 shares as of December 31, 2017 and 2016. All of them are represented by book entries and are of the same class.

The Company's shares are listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges. The ISIN Code is ES0152503035.

As of January 3, 2005 Mediaset España Comunicación, S.A. is a company listed on the IBEX 35.

### **THE COMPANY'S BUSINESS OUTLOOK**

It is a well-known fact that our business is mainly dependent on advertising, which in turn has historically been closely and directly linked to private consumption trends and its perspectives, as well as disposable family income and unemployment figures. However, a perspective on how these variables interact must be based on a sufficient period of time; otherwise, results can be misleading.

In addition, this correlation is affected by the duration of the advertising cycle and by the time in which the activity takes place.

It is therefore superfluous to highlight that our Group's business in 2018 cannot be separated from the general macroeconomic context in which we operate, nor from the correlated figures, although this interdependence would have to be qualified with the factors of cyclicity and of year-on-year volatility already mentioned.

It has already been explained in this Management Report that the data for 2017 shows that the Spanish economy has continued to grow at a sustained pace and showing one of the highest rates in our environment, estimating that in 2018 the main macroeconomic variables will continue increasing, although at somewhat lower levels as a result of the end of a tailwinds that were present in past years and also as a consequence of the political situation in Catalonia.

In this sense, if we consider the most authoritative economic forecasts, it is expected that the Spanish GDP growth this year will be slightly less than in 2017 (the consensus stands at 2.5% increase in private consumption advancing at a rate somewhat less). Of course, these forecasts do not take into account exogenous or imponderable factors in the international arena that could affect our economy.

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

With regard to the activity of free-to-air television, we hope that the process of consolidation and normalisation of the sector that we have witnessed in recent years will continue, we do not foresee a change in the existing operator and channel landscape that was left fixed after the allocation of six new channels at the end of 2015.

We also hope that the advertising cycle will continue upwards as a result of the underlying economic growth; in this context, the recovery of advertising prices, which were so severely punished during the crisis, will continue to be a priority although it will be more in line with the point of the cycle in which we find ourselves and always in the characteristic volatile environment in the short term that has been a constant in recent years.

We also expect that, based on the data of both television consumption measured in minutes / day and the weight of free-to-air television in global audio-visual consumption through the different platforms, the participation of television advertising revenues in global advertising as a whole is stable as it has been in recent years, a demonstration of the importance of TV as a means of distributing advertising messages because of its penetration, simultaneity in its reach to consumers, uniformity in methods for measuring audiences, impacts and security of its surroundings, as it is a highly regulated environment.

We will also continue our efforts to ensure the distribution of our content across all platforms and devices available to viewers (TV, online platforms, etc.), investing both in financial resources and personnel on line with what we have been doing in recent years, always with a strategy based on selling advertising across various media as the primary source of income.

In this changing market and with the new ways of distributing audio-visual content, our Group's business strategy will continue to focus on maintaining our leading position both in terms of audience and the exploitation of the advertising market, with a strong presence in terms of in-house produced content both through our own means and in association with independent producers that include those in which we have a non-controlling interest.

Indeed, we consider that a powerful and varied in house production is a singular point of strength both to provide us with exclusive content that has historically been blessed by the public's support and to compete effectively with the new players operating in the Spanish market.

We will also continue with the marketing strategy for in-house production, which, although it still represents a small percentage of our revenues, it has been progressing at a good pace in recent years and is a profitable business line with a future.

In terms of costs, we will continue with our traditional approach, with the objective of adapting ourselves to the environmental conditions that affect income generation and helped by the weight of our in-house production, to determine an optimal basis that

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

allows the maximisation of our margins and our cash flows taking advantage of the operating leverage that is inherent to our sector.

In reference to our programming grid we will continue to exploit the genres that have historically been enjoying the audience's support and that have made us the leading Group, as well as our strategy of diversification and targeting audiences through our family of channels in order to achieve a better rapport with the audience and also a more effective business card for our clients. In this context, we believe the broadcast of the 2018 Russian Football World Cup matches acquired will be the perfect complement, for its notoriety and relevance, to underpin our business strategy in the year.

Finally, maintaining a solid financial and equity position (while remaining debt-free and with positive cash-flow), thereby making it possible to objectively and independently consider operational and business opportunities as they arise within the context of the current ever-changing environment, while bolstering the Group's competitive edge in the face of the high financial leverage which affects the majority of the companies competing in its sector.

Also, once our sector's economic situation seems more normalised, we will maintain our shareholder remuneration policies based on distribution (using the different measures at our disposal, dividends, the purchase of treasury shares, or others) of surplus cash.

**Rules governing the appointment and replacement of board members, the amendment of the Articles of Association and the powers of the members of the Board of Directors, in particular those relating to the possibility of issuing or repurchasing shares.**

#### **A. Rules applicable to the appointment and replacement of Directors.**

##### **Article 41 of the Articles of Association- Appointment of Directors**

1. Board members will be appointed following the agreement of the General Meeting, notwithstanding when the appointments are made using the proportional system adopted under the requirements established in the applicable law.
2. The position of board member may be waived, revoked and reappointed once or several times. The appointment of the board member shall take effect upon its acceptance.
3. Should vacancies arise during the term of office that the board member was appointed for, the board may appoint persons for these posts from among the shareholders until the first General Meeting takes place. Likewise, if vacancies arise once the General Meeting is convened and before it's held, the Board of Directors shall appoint a Director until the next General Meeting is held.

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

4. Persons who are involved in any incompatibility or prohibition provided for in the Act, Articles of Association or the Board of Directors Regulations may not be appointed as Directors."

#### **Article 54 of the Articles of Association- Directors Term of Office**

1. Each director will be elected for a four-year (4) term, with the possibility of re-election one or more times for the same duration period(s). Once the term is concluded, the appointment will expire once the next General Meeting is held or the legal term for calling the next General Meeting has expired.
2. Independent directors will be able to hold their appointments for a maximum term of twelve (12) years, without the option for re-election upon completion of this term except with a favourable reasoned report from the Appointments and Remuneration Committee."

#### **Article 55 of the Articles of Association- Removal of Directors**

1. Directors will leave their positions when it has been decided at a General Meeting, when they give notice of their termination or resignation to the Company and upon completing the term for which they were appointed. In this last case, termination will become effective on the date of the first General Meeting.
2. Directors must offer to resign from the Board of Directors and if considered necessary, formalise their resignation in the following cases: (a) upon reaching eighty five (85) years of age; (b) upon termination of their appointments as executives in association with which they were appointed to the Board of Directors; (c) when, due to unforeseen circumstances, they are found to be involved in any of the incompatible or prohibited situations applicable; (d) when the Appointments and Remuneration Committee issues a serious warning for infringing their duties as directors; (e) when their presence on the Board may put at risk, for any reason, directly, indirectly, or through the persons related to them, the loyal and diligent exercise of their functions in accordance with the interests of the Company or negatively affect the credibility and reputation of the Company; or (f) when the reasons for which they were appointed cease to exist.
3. When directors voluntarily resign before completion of the term, they must send a letter to all the members of the Board of Directors setting out the reasons for this resignation. Similarly, the Company must communicate the resignation to the Spanish Stock Exchange Commission as a relevant fact and explain the reasons behind the resignation in the Annual Corporate Governance Report."

## **Mediaset España Comunicación, S.A. and Subsidiaries**

CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017

(Expressed in thousands of euros)

---

### **B. Rules applicable to the amendment of the Company's Articles of Association.**

#### **Article 34 of the Articles of Association- Adopting Resolutions**

1. The Annual General Meeting, ordinary or extraordinary, shall adopt resolutions by the majority required by the applicable law. Each voting share, either present or by way of representation at the Annual General Meeting, shall have the right to one vote.
2. The majority necessary to adopt a resolution will require the favourable vote of a simple majority of the shares with the right to vote, present or by way of representation at the Annual General Meeting, it being understood that a resolution is adopted when you have more votes for than against of the capital present or represented. Except for cases where the Law or these Articles establish a greater majority.

In particular, when at second call shareholders representing twenty-five percent (25%) or more of the share capital with voting rights without reaching fifty percent (50%), the resolutions referred to in Article 25.2 above may only be adopted by the favourable vote of two-thirds (2/3) of the shares represented at the Meeting. When shareholders representing more than fifty percent (50%) attend, it will be sufficient that the agreement is adopted by an absolute majority of the shares represented. "

#### **C.- Powers of the members of the Board of Directors and, in particular, those relating to the possibility of issuing or repurchasing shares.**

These powers are regulated firstly in the Company's Articles of Association and secondly in the internal code of conduct.

A. Article 37 of the Articles of Association regulates management and supervisory powers as follows:

1. Except for matters reserved solely to General Meeting by Law or the Articles of Association, the Board of Directors is competent to adopt the resolutions in all kinds of matter, being the Company's highest decision-making body.
2. Without prejudice to the Board of Directors' widespread powers to manage, direct, represent, and administer the Company, the Board of Directors will basically focus its activity on defining and supervising the Company and Group's general management strategies and directives, and communicate, coordinate, and monitor the implementation of their general strategies, policies, and guidelines. The main purpose is to create value for shareholders, based on general trust in delegating the management and handling of the Company's

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

ordinary business to its delegated bodies and management team.

- 3.** In any case, the Board of Directors has exclusive competence over the following matters, which may not be delegated:
- i. Its own organisation and functioning.
  - ii. Calling the General Shareholders meeting, preparation of the agenda, and proposed agreements.
  - iii. Formulation of the annual financial statements, the management report and the proposal for the distribution of profits as well as the Annual Accounts and Consolidated Management Report, and, its presentation to the General Meeting Board.
  - iv. Formulation of any report required by Law at any time to the Board of Directors, as long as the operation referred to in the report cannot be delegated.
  - v. Appointment of directors by co-optation and proposals to the General Meeting for the appointment, ratification, re-election, or removal of directors.
  - vi. The appointment or replacement of, or where applicable, of the Company's CEO, as well as the establishment of their contractual conditions.
  - vii. Designation and re-election of internal positions on the Board of Directors and members of committees.
  - viii. In accordance with the Articles of Association, the establishment of the remuneration of the members of the Board of Directors, to be proposed by the Appointments and Remuneration Committee.
  - ix. Formulation, of the Directors Remuneration Policy Report in accordance with the applicable law and corporate governance recommendations following a favourable report previously issued by the Appointments and Remuneration Committee.
  - x. Interim dividend payments.
  - xi. Announcement of any takeover bids regarding securities issued by the Company.
  - xii. Approval and amendment of the Board of Directors Regulations governing its organisation and internal operations.
  - xiii. Formulation of the Annual Corporate Governance Report.

DISCLAIMER: The English version is a translation of the original in Spanish for information purposes only. In case of a discrepancy, the Spanish original will prevail.



## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

xiv. Exercising the powers delegated by the General Meeting Board when the option for delegation is not available and to exercise any functions given to it at the General Meeting, unless sub-delegation had been expressly authorised.

xv. The approval, following the previous report of the Appointments and Remunerations committee, of operations of the Company or the companies of the Group carried out with the Directors, in accordance with the applicable regulations, or those operations, with shareholders, individually or jointly with others, of a significant participation including shareholders represented on the Board of Directors of the Company or other companies of the Group or with persons related to them. Directors that are affected or represented or are related to affected shareholders, will not participate in the deliberation and vote of such an agreement with the exception of those transactions established by the Law at any given time.

Board approval is not necessary (based on a report from the Appointments and Remuneration Committee) for related Company transactions performed, simultaneously contemplating the three following conditions: (i) they are performed under contracts with standard terms and conditions and applied in masse to multiple customers; (ii) they are performed at prices established in general terms by the supplier of the goods or service in question; and (iii) the amount in question does not exceed 1% of the Company's annual income.

xvi. Approval of any kind of investments or transactions which, by their amount or special characteristics, are strategic or have a special tax risk, unless their approval corresponds to the General Shareholders' Meeting.

xvii. Entering into any contract or formation of any legal relationship between the Company and a third party valued at more than 80,000,000 Euros, unless their approval corresponds to the General Shareholders Meeting.

xviii. Determination of the general policies and strategies of the Company, in particular:

a) Approval of annual budgets and the strategic plan, if any.

b) Approval and supervision of the management objectives and the dividend policy.

c) Approval and supervision of the investment and financing policy.

d) Define the Group company structure of which the Company is parent.

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

- e) Approval and supervision of the Corporate Governance policy of the Company and the Group.
  - f) Approval and supervision of the Corporate Social Responsibility policy.
  - g) Approval of the Executive Directors remuneration policy to be voted on at the General Shareholders Meeting.
  - h) Approval of the Company's treasury stock policy.
- 
- xix. Determine the Company's tax strategy.
  - xx. Performance evaluation of the Company's executive directors.
  - xxi. Supervise the effective functioning of any Committees created as well as performance of delegated bodies, as well as any designated directors.
  - xxii. Approval and follow-up, based on the Audit and Compliance Committee Report, risk management and control policy including those which are tax-related, as well as the supervision of internal information and control systems.
  - xxiii. The appointment and removal of senior management who report directly to the Board of Directors or one of its members. Also, the establishment of the basic contractual terms, including their remuneration.
  - xxiv. Approval of financial information that the Company must periodically publish at the request of the Audit and Compliance Committee.
  - xxv. Approval of the creation or acquisition of ownership interests in special-purpose entities or companies domiciled in countries or territories considered to be tax havens and any transactions or operations of a similar nature which, due to the complexity thereof, may adversely affect the Company's transparency.
  - xxvi. Authorisation or removal of commitments assumed from loyalty in accordance with legally- established imperatives and exemptions.
  - xxvii. Creation, organization, and supervision of an internal whistleblowing channel.
  - xxviii. Any other matters which the Board of Directors Regulations deal with.

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

4. Where urgent circumstances are duly justified, it may take decisions relating to the matters in paragraphs i, xii, xv, xvi, xviii a), xviii b), xviii c), xviii d), xviii e), xviii f), xix, xxii, xxiv xxv and above, by the Executive Committee or the Chief Executive Officer, to be ratified at the first Board of Directors Meeting held after the decision is taken.
5. The Board of Directors shall conduct an annual evaluation of its performance and that of its committees and propose on the basis of the result of the evaluation, an action plan to correct identified deficiencies. The result of the assessment shall be recorded in the minutes of the meeting or will be added as an attachment.

The faculties inherent to the Board of Directors, apart from any which may legally or statutorily be delegated are performed by the Executive Committee and the CEO, Mr. Paolo Vasile.

The Rules of Internal Conduct of Mediaset España Comunicación, S.A. and its Group of companies' actions on the Securities Market are guided by Section 13, which sets forth the applicable regulations regarding treasury share transactions, as follows:

#### **Article 13. - Regulations regarding treasury share transactions:**

1. For the purposes of these Regulations, treasury share transactions are considered those directly or indirectly carried out through any of the Group companies which have redemption value.

2. The Group's treasury share transactions will in no case will take place using Privileged Information, and must always have a legitimate purpose, such as to provide investors the sufficient liquidity to trade Company shares, execute own share repurchase agreements, or stabilization in accordance with prevailing legislation, meet legitimate previously-established commitments or any other admissible purposes outlined in applicable legislation and criteria published to this effect by the CNMV.

In no case will treasury share transactions be used to influence the free process of price formation for the Company's shares, by generating deceptive signs regarding their contracting volume or liquidity.

3. Treasury share management will be carried out with full transparency in relationships with supervisory and governing bodies. Treasury share transactions will be notified to the CNMV within the legally-established form, deadline, and requirements.

DISCLAIMER: The English version is a translation of the original in Spanish for information purposes only. In case of a discrepancy, the Spanish original will prevail.

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

4. The Mediaset Group's Finance Director, as Head of Treasury Share management, should:

- a) Report to the Regulatory Compliance Manager (RCM) of any treasury share transactions to be carried out with sufficient notice, and at least 24 hours ahead of time;
- b) Keep the RCM regularly informed, or where requested, report on all treasury share transactions performed, maintain an updated file of all transactions with own shares;
- c) Provide regular information to the Audit Committee on risks assumed during treasury share transactions;
- d) Oversee the performance of the Company's shares on the markets.

#### **Significant agreements that would come into force, be amended or expire in the event of a change of control at the company**

There are no significant agreements subject to a change in control at the Parent Company.

#### **Agreements between the company and its directors and managers that provide for special indemnities**

1- Executive director:

Compensatory system

- a) Voluntary departure: annual payment: fixed annual salary+ annual bonus/13.5, with total compensation the sum of years employed.
- b) Lawful or unlawful dismissal: legal indemnity + indemnity in point a)

Where any changes are made to the Company's current direct/indirect ownership/control, and in cases of unfair, collective, dismissal, or removal by the CEO due to any of the causes set forth in Articles 39, 40, 41, and 50 of the Workers' Statute: two gross annual salary payments.

2.- Executive Director:

Where any changes are made to the Company's current direct/indirect ownership/control, and in cases of unfair, collective, dismissal, or removal by the CEO due to any of the causes set forth in Articles 39, 40, 41, and 50 of the Workers' Statute: two gross annual salary payments.

DISCLAIMER: The English version is a translation of the original in Spanish for information purposes only. In case of a discrepancy, the Spanish original will prevail.

## **Mediaset España Comunicación, S.A. and Subsidiaries**

### **CONSOLIDATED MANAGEMENT REPORT AT DECEMBER 31, 2017**

(Expressed in thousands of euros)

---

#### **3.- General Director**

Where any changes are made to the Company's current direct/indirect ownership/control, and in cases of unfair, collective, dismissal, or removal by the CEO due to any of the causes set forth in Articles 39, 40, 41, and 50 of the Workers' Statute: two gross annual salary payments.

#### **4.-Divisional Director:**

Termination of the contract at the Company's request (unless referring to lawful dismissal): Indemnity comprising an annual fixed gross salary plus any legally-stipulated amounts.

#### **5.- Divisional Director:**

Termination of the contract for reasons attributable to the company or suspension, modification or limitation of its duties will perceive the largest amount of the following options:

A) Compensation starting from 1,020,000 euros, decreasing monthly by 34,000 euros over the following 30 months from the signing of the termination (01/30/2006) until it reaches 0.

B) Compensation equal to 12 months of current salary.

#### **6.- Managing Director:**

Start date of the contract: October 10, 2009.

A) From the 7th to the 9th year: six months fixed salary (legal compensation excluded).

B) As of the 10th year: legal compensation.

#### **7.- Managing Director:**

Where the Company terminates the contract, and unless it is deemed lawful: indemnity of one hundred and twenty thousand euros gross (120,000.00 euros), including legal dismissal amounts. From here on the indemnity should the legally-established higher than the agreed-upon amount, it will be the only amount payable.

#### **8.- Area Manager:**

During the first 3 years: 12 months of fixed salary (legal compensation included)

- From the 4th year and after: 6 months