

THE SPANISH ECONOMY IN 2012

Data on the Spanish economy available at the date of authorization for issue of these financial statements indicates that, without a doubt, last year was one of worst since the global economic crisis began five years ago. The prolonged recession has hit our production model hard since 2008, which is indicative of the daunting economic environment in which we competed economically during 2012.

Viewed from a global perspective, from the start of 2012 it became clear that the hoped-for economic recovery was still not imminent; in fact, it soon became clear that the Chinese economy was showing signs of slowing down when compared to its previous high growth rates. Other developed economies were still far from getting back on the road to long-lasting growth for two main reasons: the US did not meet growth rates projected during the final quarter of 2011, while the dire situation of the European economy was pulled further down by peripheral countries which entered into a recession the first part of 2012.

Since then, all these economies (excepting China, whose growth seems to have received a push in recent months) have worsened, to the extent that the German and US GDPs, traditionally the motor of the global economy, entered into the red towards the end of the year. This panorama excludes Latin America: although in 2012 certain countries did not grow as much as projected (no doubt due to the fact their economies are warming up), the forecasted overall GDP is under 3%, which, while not exactly spectacular, can be considered sound.

Data for Spain available at the at the date of authorization for issue of these financial statements indicate that the GDP fell 1.8% overall during the year: it is quite significant that the fourth quarter was the year's worst (-0.7%), which seems to corroborate that the end is not in sight, and that some time will have to pass until the recession ends and the economy begins to reflect growth, however slight. Evidently, the contraction of the GDP during the year has led to an intense destruction of jobs, causing unemployment to reach 26.1% of the current active population at the date of preparation of these financial statements; thus, approximately 5 million people are unemployed.

Austerity measures (which were nearly inevitable) instrumented by the government were a leading cause of the contraction of the Spanish economy during 2012; they have had a significant impact on internal demand as well as private consumption. These measures include: a rise in Personal Income Tax at the beginning of the year, increase VAT as of September 1, as well as other austerity initiatives having an impact on the expenditures and investments made by public administrations.

Economic forecasts for 2013 indicate that the economy will remain stagnant, as certain key public and private sector employment adjustments will still be pending, which will have the inevitable effect on internal demand that has been greatly affected by shrinking public budgets. However, as of the third quarter of the year, a weak growth might be noted once all the current economic adjustments underway have begun to take effect.

The huge efforts and sacrifices made regarding economic policies as well as the restructuring of important sectors, especially the financial, have led to improved productivity as well as a reversal of Spain's trade deficit; thus, at the end of 2012, it reached a balance and headed towards a surplus. Net capital flow during the first part of 2012 was fluid, to then reverse during the second half, demonstrating the increasing confidence of foreign investors in the Spanish economy. This has pushed risk premiums for Spanish public debt downwards, with a public and private degearing process which is crucial, and without which it would not be possible to get back on the road to recovery. Against this backdrop, encouraging news has begun to emerge regarding financial markets as well as Spain's competitive edge, but has yet to influence the economy's flow of credit in reasonable quantities and conditions making it possible to guarantee that economic agents will be able to obtain necessary financing when conditions make it possible to do so.

THE TELEVISION INDUSTRY IN 2012: LEADING DURING TROUBLED TIMES

As explained in the Management Report corresponding to the interim consolidated financial statements for the first half of 2012, last year, TV advertising was greatly influenced by the second phase of the recession, which began at the beginning of 2011, effectively dashing any hopes of economic recovery which had been in the air due to the brief upturn during 2010.

As mentioned previously, the economic policies implemented during the year have had a direct effect on the disposable income of families: the severe destruction of employment and its psychological impact on consumers, including those with job security, has forced private consumption below the GDP, as well as causing very harsh cuts in budgets devoted to television advertising, leading to a very pronounced drop in income from TV ads which has affected the entire sector.

Data available at the date of preparation of these financial statements (pending confirmation by Kantar Media) estimates that the TV advertising market plummeted 18.5% in 2012, confirming it as the second worst year of the crisis after 2009. The overall TV sector has lost over 50% of its invoicing since its record during 2007, mainly as a result of the steep drop in sales prices over recent years.

In 2012, Mediaset España has employed a strategy aimed at bolstering its position as sector leader (45.3% at year end), ensuring balanced operation of channels according to market conditions, and optimizing income from sporting events (most notably the UEFA European Football Championship, won by Spain, as well as the Moto GP Championship, which the Group recently acquired the rights to); this has enabled it to increase market share during the year.

Turning to audience figures, after the integration of Cuatro in 2011 and the launch of the new "Divinity" channel the same year, the Group moved forward with its diversification and complementation strategies by launching "Energy" in 2012, which mainly addresses the male population via the sporting events to which the Group bought the rights, as well as content specifically acquired for the channel. Thus, along with its more consolidated channels, such as Factoría de Ficción, La Siete, and Boing, and its driving force, Telecinco, the Company has managed to consolidate the overall audience of its family of channels as well as each of them individually. It has avoided cannibalization within an environment in which TV consumption has reached its maximum limits, despite a pervading economic crisis, and achieved a greater diversification and audience loyalty through segmentation.

To illustrate, data show Mediaset España was the overall leader in 2012, with a 28.1% share, 9.2 points ahead of RTVE and 2.3 ahead of Antena 3 (once the merger with La Sexta was completed). The Telecinco channel reached a 13.9% share in the year, 1.7 points ahead of RTVE's La Primera, while Cuatro's 6% share situated it 1.1 points ahead of La Sexta. Finally, as regards the newer-generation digital channels, those comprising the Mediaset España Group registered an 8.3% audience share, which is 9 points higher than its main competitor's group of channels, which attests to its unequivocal position at the head of the pack.

A comparison of the Company's results in 2012 with those of 2011 indicate that:

- Total operating income decreased from 1,009,330 thousand euros in 2011 to 886,727 thousand euros in 2012, mainly as a result of decreased ad income.
- Operating expenses decreased from 844,801 thousand euros to 837,924 thousand euros, which is slight when viewed in overall terms, mainly the result of a reduction in general expenses, the most noteworthy of which are directly linked to the Company's legal commitments. These expenses include those related to sporting events (namely the 2012 Euro Cup Football Championship), which were compensated by savings from other television programs, as well as the magnificent audience share obtained during the year, as mentioned previously.
- Profit from operations amounted to 48,803 thousand euros, down from 164,529 thousand euros in 2011, leaving an operating margin (profit from operations/operating income) of 5.5% in 2012 compared to 16.3% in 2011. Given the high operational gearing inherent in the TV business, the decrease relates mainly to the downturn in the advertising market in the year.
- Lastly, profit for 2012 attributable to the parent amounted to 50,143 thousand euros, compared to 110,519 thousand euros in 2011.

DIVIDENDS

In 2012, the Group paid a total of 55,260 thousand euros of dividends.

INVESTMENT IN RIGHTS AND FILM PRODUCTION

The Mediaset España Group maintained its policy of investing in audiovisual broadcasting rights, carefully selecting the type of rights and content in order to maintain audience figures in the future and provide the most fertile ground for the advertising business. The Group placed special emphasis once again on investment in Spanish Series.

Worth highlighting were the activities undertaken by Telecinco Cinema, S.A., a wholly owned subsidiary of Mediaset España Comunicación, S.A. charged with film production under the legal requirement of TV concessionaires to earmark 3% of operating revenue for 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 bearing in mind 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 commanded.

In short, the aim is to combine financial wherewithal, talent, profitability, and opportunities efficiently for our brightest and most promising professionals in order to maximize 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 bring together quality and commercial appeal under the network's logo.

Without a doubt, 2012 was an extraordinary year for our film co-production activity: "The Impossible" broke the 40 million euro mark in Spain, and now ranks as the top-grossing Spanish film in history, and second in absolute terms right behind "Avatar," surpassing movies such as "Titanic," "The Lord of the Rings, or "Pirates of the Caribbean."

In international terms, the film has been sold all over the world and results until now have been very encouraging. The film has been present in international festivals, including the Toronto International Film Festival and the San Sebastian Film Festival, acclaimed by critics and public alike; it was nominated for 14 Goya awards, winning in five of these categories (including Best Director and Best Production Supervision), as well as for Oscar and Golden Globe awards in the category of Best Performance by an Actress in a Leading Role.

In 2012, "Tadeo Jones" was co-produced with an all-Spanish team; it is the most-watched Spanish animated film of all time as well as the biggest box office smash in this category, raking in 18 million euros in Spain, which is over Hollywood productions such as "Ice Age 4," "Brave," or "Madagascar 3." It was nominated for four Goyas, and won three, including Best Animated Film, Best Adapted Screenplay, and Best New Director. It is the Group's first animated movie, and is paving the way for new business opportunities in this regard.

Thanks to the above, the Group leads the national film production market by far, with a 56% share, which is even more significant when taking into consideration the challenging situation the sector faces due to the economic recession, as well as the impact of the VAT increase effected last September.

INTERNET

The Group considers Internet a strategically important current and future activity.

In 2012, the Group broke even in this segment.

According to OJD data, Telecinco was the television website with the highest traffic during the year. The Mediaset.es website also led communication groups operating in Spain.

The Group's MiTele website encompasses all its audiovisual content. It bolstered its contents while becoming more available through its specific areas devoted to film (movies in their original version, i.e., not dubbed) for children's programming.

TREASURY SHARES

At December 31, 2012, the Group held 6,419,259 of its own shares, representing 1.58% of share capital post capital increases.

MEDIASET ESPAÑA SHARE PRICE PERFORMANCE

Throughout 2012 the IBEX 35 Spanish blue chip index was in a slump, losing 4.7% overall during the year; however, until May 30 accumulated losses reached 30%, to strongly bounce back the remainder of the year thanks to the positive impact exerted on investor trust by the European Central Bank's defense of the European Monetary Union.

Spain's blue chip index performance during the year clearly reflected investors' negative perception of the Spanish economy, especially when compared to other areas, as all the key international markets (Dow Jones, DAX, CAC40, FTSE10, etc.) rose during the year.

Mediaset España's share price behaved positively in 2012, growing 15.4% overall, making it the index's eighth best performer during the year. At December 31, 2012, its quoted price rose to 5.09 euros.

Mediaset España's market capitalization was 2,071 million euros, situating it in first place, well ahead of its nearest competitors: it more than doubles the all the other Spanish companies in the sector as a group.

The volume of shares traded during the year rose to 477.4 million, equivalent to 2004.1 million euros, which is substantially lower than during 2011. This drop can basically be blamed on the prohibition of short-selling shares on the Spanish market imposed by the CNMV at the end of July until the end of the year.

Most notably, Mediaset España's share price reached a yearly high of 5.69 euros on December 19, with its minimum registered on May 9 (3.30 euros).

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

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.

The main measures adopted by the Mediaset España Group in the field of corporate governance since 2006 are as follows:

Amendments of the rules governing the organization and operation of the main management bodies. Specifically, amendments have been made to 9 articles of the Company's bylaws, 4 articles in its The Company's Board members and 18 articles in the Regulations of the Board of Directors. In addition, the Company drafted an Internal Code of Conduct for Mediaset España Comunicación, S.A. and its Group of Companies governing their activities on the stock markets.

Revision of the composition of the Board of Directors and the board committees to increase the percentage of independent directors, meanwhile, the Audit and Compliance Committee and the Appointments and Remuneration Committee are chaired by independent directors.

Increase in the number of women directors, reflecting the network's commitment to gender equality.

Continued detailed information on remuneration paid to directors in the Company's annual financial statements, as well as in the Annual Corporate Governance Report and the Report on the Directors' Remuneration Policy.

Verification of the Corporate Governance Report and the Corporate Responsibility Report by an independent auditor (PricewaterhouseCoopers).

The Mediaset España Group's efforts in 2009 were acknowledged by Observatorio de Responsabilidad Social Corporativa, a Spanish corporate social responsibility organization, which rated it top among IBEX-35 companies in a study of corporate governance compliance. The network was rated highly for its efforts in transparency and the degree of compliance with the Unified Code Recommendations.

The Mediaset Group is aware of the social impact of its actions. This awareness is all the more important at Mediaset as a mass media, prompting the network to spearhead a variety of initiatives, such as the "12 meses, 12 causas" (12 months, 12 causes) project to make the network's viewers more aware of a series of issues. Under the auspices of the above initiative, Mediaset created its "You are perfect for someone else" campaign in collaboration with the a National Transplant Organization, aimed at encouraging organ donation in Spain. Thanks to the Company's widespread presence in Spanish homes, as well as the communication potential of its star presenters, over 170,000 donor cards were requested as a result of the campaign. This very well accepted and effective solidarity campaign led to Mediaset España Comunicación, S.A. winning seven awards, several of which are considered Spain's most prestigious.

Internally, Mediaset also remains firmly committed to the training and career development of its employees.

HEDGING

The Group 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 forward for the amounts payable so as to match the forecast payment dates.

RISK CONTROL

As part of its general oversight function, the Board of Directors is in charge of identifying the Mediaset Group's main risks, as well as implementing and monitoring the internal information and control, and internal reporting systems.

In addition, among the basic responsibilities of the Audit and Compliance Committee are to know and verify the appropriateness of the financial reporting process and internal control systems.

To support and back this Committee, a Corporate Risk Management System is applied consistently at all Group companies. This system is reviewed and updated periodically.

Corporate risk management at Mediaset is based on the COSO II (Committee of Sponsoring Organizations of the Treadway Commission) integrated framework for enterprise risk management.

Mediaset España Comunicación monitors its risks permanently, assessing the relevance and potential impact on Group companies, the probability that this risk will occur and the degree of control over the risk.

RESEARCH AND DEVELOPMENT

Mediaset's biggest investments go to the current and future content broadcast by the Group. It does not have a specific R&D department, although innovation is still a crucial area of future development.

EVENTS AFTER THE REPORTING PERIOD

The main events occurring between the end of the reporting period and the date of authorization for issue of the financial statements are those discussed in the related note to the financial statements.

CAPITAL STRUCTURE

The Company's share capital before the capital increases carried out to acquire Cuatro and 22% of Digital+ amounted to 123,320,928.00 euros, made up of 246,641,856 shares of the same class represented by book entries and with a par value of 0.50 euros each. As a result of the capital increases, the number of shares increased to 406,861,426 of 0.50 euros par value each, taking the total to 203,430,713 euros. All the shares are of the same class and represented by book entries.

The Company's shares are listed on the Madrid, Barcelona, Bilbao, and Valencia stock exchanges. The ISIN code is ES0152503035.

Mediaset España Comunicación, SA has been a member of the IBEX 35 since January 3, 2005.

BUSINESS OUTLOOK

The Group's business is dependent on national private consumption, and as such, in 2013 will not be able to separate itself from the overall macroeconomic environment and related indicators. As discussed in this Management Report, despite the fact there are reasonable expectations that towards the end of the year Spain will begin to experiment the first signs of economic recovery after nearly five years of a deep recession without precedent in recent decades, this is not to say that in 2013 (particularly during the first six months) basic economic indicators such as unemployment and consumption will not continue to be big concerns.

As regards free-to-air television, a sector in which the Group was pioneer and is still consolidating its presence, it should continue forging a strong presence based on a more rational use and transparency, making it more easily adaptable to the demands of the economy as well as the situations presenting themselves when expected recovery arrives.

Available data on TV consumption and its share of the total advertising income pie indicate that the sector has undergone a crisis brought on by the economic recession; however, structural factors remain solid.

Within this context of the concentration and consolidation of operators, the Company's business strategy will be focused on how to maintain its strong lead, in both terms of audience as well as advertising market, while being fully-adapted to the environment which affects cash generation as well as its cost structure, in order to protect its financial margins as well as foster growth once the economy makes it possible to do so.

As far as its programming lineup is concerned, the Company will continue to support genres which have traditionally been popular, thereby making it the indisputable leader of the market; it will also continue with its strategy of diversification, focusing on the different audience to which the family of channels is tailored. Also, it will endeavor to better position each channel in advertising terms, while remaining cognizant of sporting events which, in an increasingly-fragmented market, are very popular and attract large audiences. All this will take place with close supervision of acquisition costs and attention to advertising opportunities, which are key to obtaining economic benefits, as well as a relevant goal within our programming strategy and commercial operations.

A final first-line goal is to maintain a solid financial and equity position (while remaining virtually debt-free), 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 Company's competitive edge in the face of the high financial leverage which affects the majority of the companies competing in its sector.

RESTRICTIONS ON VOTING RIGHTS

There are no legal or bylaw stipulated restrictions on exercising voting rights. Each share carries one vote.

SHAREHOLDER AGREEMENTS

Shareholder agreements in force are those included in the "Significant event" notice filed by the Company with the National Securities Exchange Commission (CNMV) on February 8, 2011, reproduced below:

Through this communication we inform of the clauses restricting the transfer of shares or relating to the exercise of the right to vote at the General Meetings that are included in the Integration Agreement and the Option Agreement entered into between Mediaset España Comunicación, S.A., Prisa Televisión, S.A.U. ("Prisa Televisión") and Promotora de Informaciones, S.A. ("Prisa"), as listed and described in Mediaset España Comunicación, S.A. Prospectus approved and registered by the National Securities Market dated November 18, 2010 and January 25, 2011 (the "Prospectus"):

1 Integration Contract

Subject to Clause 3.4 of the Integration Agreement and as described in the Prospectus dated November 18, 2010, Prisa TV (formerly Sogecable) is entitled to appoint two of the eight members of the Board of Directors of Mediaset España Comunicación, S.A. and will be entitled to appoint one director for as long as it holds a minimum of 5% of Mediaset España Comunicación's share capital. In addition, whilst Prisa TV holds 10% of Mediaset España Comunicación's share capital, it will be entitled to appoint, among the directors it has appointed, a non-executive Vice-president, a member of the Executive Committee, a member of the Audit and Control Committee, and a member of the Remuneration and Nomination Committee. Mediaset S.p.A. has expressed its agreement with the contents of the indicated clause.