

1. THE SPANISH ECONOMY IN 2019

The data on economic developments available at the time that these annual accounts were prepared indicate that the Spanish economy will have grown by around 1.9% in 2019, 5 tenths lower than that recorded in 2018 and which includes 0.4 point growth in the fourth quarter of the year, equal to that of the previous quarter and which paints a picture of stability in the final part of the year although, when looking at the year as whole, there has been a loss of traction due to less momentum with domestic demand (with a contribution of around 1.6 points between consumption and investment) and the lower contribution from foreign trade (0.3 points) due to the trade situation and the tense environment between China and the United States, the uncertainty of Brexit, and the sluggish economic performance of our main business partners.

Globally, estimates are that growth will be around 3% in 2019, the lowest since the end of the Major Crisis and ranging from 2.3% growth in the United States to an estimated 1.1% for the European Union as a whole, which is still growing below the Spanish economy. It is worth noting the disappointing performance of the German economy, traditionally the EU's biggest driver, which has been badly hit by the downturn in world trade in 2019 (its GDP is expected to grow by only 0.6% for the year as a whole), and that of Italy, with growth of only 0.2% for the year.

In terms of employment, the growth experienced during the year allowed the unemployment rate to decline to 13.8% at the end of the year, the lowest figure since 2008, although it is true that there has been a slowdown in job creation, which has recorded its lowest figures since the beginning of the recovery despite a magnificent fourth quarter that surprisingly saw almost one hundred thousand new jobs.

In terms of inflation, it closed the year at 0.8%, with an average rate of 0.7% for the year, a figure well below that recorded in 2018, mainly due to the behaviour of energy prices. Core inflation, which excludes these products, remained stable at 1.1%.

As far as 2020 is concerned, most forecasts indicate that Spain will grow at a lower rate than in 2019, around 1.6% according to the consensus. As for its composition, it is estimated that most of it will come from domestic demand as the contribution of foreign trade is expected to be zero or even marginally negative.

Analysts' consensus points to an average inflation rate of around 1.1%, i.e. four tenths higher than that recorded in 2019 while, in terms of job creation, projections show a slowdown in the number of new jobs, in line with the trend already observed last year and also with the lower rate of economic growth which is the central scenario of all the forecasts, so it is likely that the unemployment rate will not noticeably decrease during the year.

It is important to bear in mind that most global economic forecasts maintain that the growth rate in 2020 should not differ much from the 3% experienced in 2019, mainly because of the uncertainties already present in 2019 (trade tensions, Brexit, geopolitical instability) which, although in some cases, have been mitigated in recent months, they have not completely disappeared from the international environment. While on the other hand, new sources of instability have appeared, among which the coronavirus outbreak is particularly noteworthy, which, at the time of the preparing of these financial

statements, we know it is already having a significant impact at a global level, both socially and economically, and the ultimate implications of which are still far from being discernible.

ORGANISATIONAL STRUCTURE

The corporate purpose of Mediaset España Comunicación, S.A., parent company of the Consolidated Mediaset España Group, is the indirect management of a public television service. At 31st December 2019, it was commercially operating seven television channels (Telecinco, Factoría de Ficción, Boing, Cuatro, Divinity, Energy and Be Mad). It is also the parent company of a Group of companies known as the Mediaset España Comunicación Group.

The distribution of the Company's share capital at 31st December 2019 and 2018 was as follows:

Owner	<u>2019</u>	<u>2018</u>
	% of ownership	% of ownership
Mediaset, S.p.A.	53.26	51.63
Market	42.38	48.37
Treasury shares	4.36	-
Total	100.00	100.00

Traditionally, the Group's activities have focused mainly on the exploitation of advertising on the Company's TV channels, and in recent years it has expanded into activities that are complementary and linked to the traditional TV business, such as:

- Audio-visual production
- Distribution of content
- Sale of digital advertising

THE TELEVISION BUSINESS IN 2019

As indicated in the directors' reports accompanying the financial statements for 2018, official figures for the television advertising market for that year published by Infoadex indicated a slight decline with respect to the previous year, which indicated a market without growth if the TV advertising data for 2017 and 2018 were considered together.

With regard to 2019, according to the figures recently made public by Infoadex, television advertising fell 5.8%, the worst performance since the beginning of the economic recovery in 2014.

There are several and varied factors that help explain this market behaviour, such as: a comparison with a year (2018) which featured a major sporting event (the 2018 FIFA World Cup), the irregular performance of some key sectors in the advertising market and the depletion of private consumption which, after years of high growth, especially for durable consumer goods, favoured by the take-off effect after the market's flat behaviour after the crisis, has reduced its growth rates in favour of other GDP components.

Additionally, and as mentioned last year, the market performance is also accompanied by an unmistakable volatility with respect to market performance month-on-month and quarter-on-quarter and behind which there is a very tactical approach by advertisers when determining the timing of their advertising investments, depending on the evolution of the markets in which they operate.

These market trends point towards greater convergence between television and digital media and recommend thinking more in terms of an “Audio-visual Market” encompassing both the television advertising market and the digital market offering video content, since a combination of television and digital provides a new backdrop which both increases forms of consumption and operators’ offerings; operators who in turn are required to compete with the players offering video content in an increasingly diversified market.

In line with this definition and per Infoadex data, the Audio-visual Market achieved an advertising spend of 3,429.6 million euros in 2019, this figure is practically identical to that of the previous year and reflects both the performance of the TV advertising market during the year (-5.8% to 2,002.8 million euros) and that of the video + display part of digital advertising, which grew by 8.3% in the year to 1,426.8 million.

The Mediaset Group has achieved a 26.3% share of this market through its television channels, digital content platforms and websites that combine the notoriety and coverage of the traditional television offer with a solid digital platform that includes direct and programmatic sales, video, display catalogue and development of branded content.

Once again, television consumption (measured in terms of minutes per viewer per day) has remained strong because, although decreases have been registered following the all-time highs recorded in mid-2013 (figures which, moreover, were undoubtedly inflated by the severity of the economic crisis) and there has also been a slight reversal with respect to figures in the previous year, it continues showing some of the highest figures seen in our environment, which is undoubtedly a clear indication of television’s good health as a commercial communication tool. In particular, the figures as of 31 December 2019 show an average consumption per viewer of 222 minutes/day compared to 234 minutes the previous year.

As for prices, these continued to recover during the year, albeit at a slower rate than in previous years, and at the end of the reporting period it is considered that around 50% of the loss seen since the all-time highs recorded in 2007 has still to be recovered, while advertising occupancy achieved levels close to 90% in the year.

In relation to the Mediaset Group, it is worth noting that, according to figures published by Infoadex, we achieved a 43.4% share in TV in 2019, climbing one decimal point compared to 2018, a very remarkable fact given that last year we broadcast all the 2018 FIFA World Cup football matches, which means that, eliminating this impact on the basis of comparison, the market share we have gained would be even greater as a result of the strength, diversity and depth of our programming grid.

These figures place us 2.7 percentage points ahead of our main competitor, who registered 40.7%.

In terms of audience, the data for the year (always in terms of Total Day) show that our Group continues to be the global leader with a 28.9% audience share and a 2.7 point difference with our main competitor (the difference was two points in 2018).

Once again, Telecinco led the audience with 14.8%, 2.7 points ahead of its main competitor (8 points in 2018), while Cuatro reached 5.3% and the rest of the Group's thematic channels 8.8%, placing them 1.2 points behind that of their main competitor's thematic channels.

A comparison of the Company's results in 2019 with those in 2018 shows the following:

- Operating revenues rose from 799,400 thousand euros in 2018 to 771,336 thousand euros in 2019, mainly due to the fall in TV advertising revenues in the year.
- Operating expenses fell from 680,920 thousand euros in 2018 to 646,605 thousand euros in 2019, a very considerable reduction that reflects the adaptability of our business model to the reality of the market without affecting our leadership objectives in terms of both audience and advertising market, which were clearly achieved once again this year.
- Finally, the Company's net profit in 2019 amounted to 168,918 thousand euros compared to 175,089 thousand euros in 2018.

In November 2019 the Group acquired 5.5% of the shares of the German television operator Prosieben Sat which, added to the 10% held by the majority shareholder Mediaset SpA, makes Mediaset its largest shareholder. This operation is of a purely industrial nature and it is closely linked to the Group's strategic objective of combining efforts to promote the creation of a pan-European communications group capable of meeting the new technological challenges and competing effectively with the new global digital operators. This acquisition was carried out through a mix of direct purchases of shares and derivatives contracted with a leading financial institution.

DIVIDENDS AND TREASURY SHARES

In 2019 an ordinary dividend of 99,958 thousand euros was distributed, charged against the 2018 profit, equivalent to 0.30590132 per share.

During the year, a Share Buyback Plan, approved by the Board of Directors on 23rd January, was implemented. The purchases were made up to 5th June 2019 and resulted in a total of 14,419,910 shares, equivalent to 4.36% of the Parent Company's share capital, with 94.5 million euros paid out in the execution of the Plan.

INVESTMENTS IN RIGHTS AND CINEMA

The Mediaset España Group is continuing with its policy of investing in audio-visual rights, which it selects carefully in terms of type and content in order to maintain audience figures in the future and ensure optimum advertising.

The Group also places particular emphasis on investment in the production of Spanish series.

Particularly worth mentioning is the activity carried out by Telecinco Cinema, which is 100% owned by the Group, and responsible for the legal requirement to invest 3% of the Parent Company's profit from operations in Spanish and European film production.

Based on the premise that investment in films results from a legal obligation and not from a freely made decision, it should be mentioned that in general the Group has opted for quality and ambition when it comes to the projects it undertakes, based on a global strategic approach to our activities in this area, which aims to choose, where viable, productions of a certain dimension and size that can be exploited internationally based on market conditions and our financial capacity, as the obligation is imposed on the income generated irrespective of Group trends or performance and without any regard for the costs incurred or the margins obtained.

In short, the objective is to successfully bring together talent, profitability and opportunities for our most brilliant or promising professionals, with the intention, as far as possible, since this is not a voluntary activity, to endeavour to maximise our investment and produce films that blend quality and box-office appeal, while bearing the Group's hallmark.

After the magnificent results achieved in prior years, which have propelled Telecinco Cinema into the position of Spain's leading film producer, in 2019, we managed to place the two films that were premiered into the five most viewed films of the year, each of which exceeded 10 million euros in takings.

The first title we released was "La dejo cuando quiero", a remake of the acclaimed Italian comedy "Smetto quando voglio". Directed by Carlos Therón and boasting a cast of young actors, it was launched in April by Sony Pictures. The film was seen in theatres by 1.8 million viewers, generating more than 11 million euros at the box office.

"Si yo fuera rico", directed by Álvaro Fernández Armesto and starring Alex García and Alexandra Jiménez, is a remake of the French comedy "Si J'étais riche" and was released in November. The film is still showing in theatres and has attracted over two million viewers, bringing in more than 12million euros in box office takings.

2019 was also a year of intense activity in film production, with four new films scheduled for release in 2020, all of which are of great importance and belong to diverse styles in line with the concept of variety of genres that is the hallmark of our production company.

The first release of the year was "Adú", it was launched at the end of January by Paramount Pictures, with takings of over a million euros in its first weekend of screening and, at the time of writing, it has risen to the top of the ranking of Spanish films released this year. Directed by Salvador Calvo and starring Anna Castillo, Luis Tosar and the young Mustapha Oumarau, it has been filmed in different areas of Africa and Spain.

"Operación Camarón" is a comedy remake of the Italian "Song' e Napule", will hit screens in March. The film is distributed by "The Walt Disney Company", directed by Carlos Therón and starring Julián López and Natalia de Molina.

"Malnazidos" will be released in movie theatres in September. The film, directed by Javier Ruiz Caldera and starring Miki Esparbé and Aura Garrido, will be distributed by Sony Pictures Entertainment.

Finally, "Waydown" is our most ambitious project of the year. Directed by Jaime Balagueró, it has been shot in English and has a top-notch international cast, including Freddy Highmore ("The good doctor"),

Liam Cunningham ("Game of Thrones") and the Spaniards José Coronado and Luis Tosar. It will be released in November, again by Sony Pictures Entertainment.

INTERNET

In 2019 our Group has consolidated its leadership in digital video consumption according to Comscore data, reaching its best result ever with 4,778 million videos viewed between January and December, almost double the figure for 2018 and that puts us well ahead of our main competitor, who registered 3,070 million, and the state public television station which logged 682 million. With this data, the Mediaset Group reaches the third position in the global ranking of videos, surpassed only by Google and VEVO.

The data shows that we have witnessed a major growth in video consumption on the various webs, most notably Telecinco.es, which closed the year with an increase of 90% compared to 2018, reaching 926 million videos downloaded (almost triple that of Antena3.com, which reported 357 million) and Cuatro.com, which increased by 92% to 234 million videos viewed, ahead of lasexta.com, which reported 207 million).

Regarding TV content platforms, Mitele.es reinforces its leadership in video consumption with 2.6 billion downloads, which represents a growth of 70% (Atresplayer, one of its main competitors, reached 1.444 million), while the digital native content platform Mtmad has achieved a total of 233 million videos viewed, no less than four times the 2018 record.

In terms of traffic, the growth of the Telecinco.es and Cuatro.com sites stands out again, ending the year with 9.8 and 4.6 million unique users in December, respectively. In addition, Mitele.es reached 2.8 million unique users according to Comscore data.

Meanwhile, Mediaset España's YouTube channels closed the year with more than 640 million videos accumulated from January to December, doubling the figure for the previous year, while the Group's apps totalled five million downloads, with the Mitele (3.8 million downloads) and Big Brother (920,000) apps being particularly noteworthy.

The launch of the Mitele PLUS payment platform at the end of July deserves particular attention. This platform makes regular Mediaset content available to the user without advertising, while incorporating others (including sports contents such as the Santander and Smartbank League, the Champions and the Europa League) live and on demand, complementing the offer with exclusive content for Mitele Plus users such as the catalogue of Turkish soap operas, exclusive 24-hour channels of the Group's main "reality" shows, exclusive programme previews and VOD content from various other formats such as MYHYV. In 2019, the Mitele Plus platform reached 123,845 subscribers.

Finally, we would like to mention the launch of NIUS' webs, Mediaset's new digital newspaper, and Uppers, a vertical portal focused on information and entertainment for a "senior" audience. Both initiatives have had an upward trend since their creation to reach 941,000 and 404,000 unique users respectively by the end of 2019.

TREASURY SHARES

At 31st December 2019, the Group held 14,269,073 treasury shares of the parent company, equivalent to 4.36% of the share capital and with a par value of 7,135 thousand euros, whereas at 31st December 2018 it held only one share, which was below the maximum permitted under the Spanish Companies Law for listed companies.

PAYMENTS TO SUPPLIERS

In 2019 the average period of payment to the Company's Spanish suppliers was 70 days, which was slightly more than in 2018 (65 days).

It should be noted that the difference with respect to the maximum payment period stipulated in the legislation combating late payment is due almost exclusively to the stringent control exercised by the Group in relation to the corporate and tax requirements to be met in relation to the invoices received, which means that the invoices may not be paid until the issues identified therein have been resolved. Otherwise, the Group complies scrupulously with the regulations contained in the legislation combating late payment.

MEDIASET ESPAÑA SHARES

2019 has been a year that can be described as intense as far as the stock market is concerned, for a variety of reasons: firstly, there is the slowdown in the domestic economy that we have mentioned earlier in the report and the political uncertainty which always discourages investors. In addition to these factors, international issues such as Brexit and trade tensions between China and the United States have led to a situation of instability to which the markets have been sensitive.

However, the stock markets experienced generalised increases during the year, in particular, the progress of the Italian MIB (28.3%), the French CAC (26.4%) and the German DAX (25.3%), while the British FTSE 100, affected by the never-ending Brexit, closed the year with a rise of 12.1%, mainly caused by the upturn that took place in the last part of the year.

The IBEX 35, on the other hand, was revalued by 11.8% in 2019 to 9,549.20 points, in other words, a much more moderate record than that of the other European indices. As for the American stock markets, in 2019 we once again saw record highs in both the Dow Jones and the Nasdaq, which rose by 22.3% and 38% respectively.

In 2019 the media sector experienced a disparate evolution: while the British ITV led the way with a rise of 20.9% followed closely by M6 (+19.5) Atresmedia declined by 20.2% and ProSieben and Mediaset SpA fell by 10.5% and 3.1% respectively. In the middle of the board, Mediaset España grew by 3.1% and TF1 by 4.5%.

With these data, the Mediaset España share reached a market capitalization of 1,853 million euros at the end of the year, 2.4 times the size of Atresmedia, the second operator on the Spanish market, which placed us in fifth position among European operators. The annual high was on 6th March, when it reached 7.03 euros and the low was on 12th August (5.10 euros).

CORPORATE GOVERNANCE

Corporate Governance best practices pursue the implementation of rules, principles and incentive in companies that help protect the interests of the company and the stakeholders and guarantee professional management conduct.

Mediaset España's commitment to the rules and principles of good governance has been evident from the moment we became a listed company in 2004. Ever since then, our principal objective has been to adapt our various bodies of rules to the Code of Good Governance as well as the approval of others that did not exist until now: our Code of Ethics, which must be complied with by any individual or legal entity that collaborates in any area or in any way with us, and the Internal Code of Conduct of Mediaset España Comunicación, S.A. and its Group of companies for matters related to the Securities Markets.

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

The verification by independent auditors of our reports on (i) Corporate Governance; (ii) Remuneration Policy; and (iii) Corporate Responsibility, including the binding submission of the latter to the shareholders at the Annual General Meeting, have placed us at the head of the IBEX-35 companies in terms of Corporate Governance, as has been recognised by various institutions specialising in this area.

The non-financial information for 2019 is presented in the separate report: "Statement of Non-Financial Information"; likewise, the "Annual Corporate Governance Report" for that year is presented separately as part of this Individual Management Report.

HEDGING OF FINANCIAL RISKS

The Group arranges financial instruments to hedge transactions in foreign currencies (mainly purchases of third party production rights). These hedging transactions aim to mitigate the impact on the consolidated statement of profit or loss of exchange-rate fluctuations in relation to outstanding liabilities corresponding to the aforementioned transactions and, for such purpose, purchases of currencies are arranged for the amount of such liabilities at the scheduled payment dates.

RISK CONTROL

The Group's risk management policy is described in Note 8.4 to the accompanying financial statements.

RESEARCH AND DEVELOPMENT

Our main investments are concentrated on the present and future content broadcast by our Group. We do not have a specific Investment and Development department, although innovation is one of our critical points of development.

ENVIRONMENTAL MATTERS

In view of the Group's business activities, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or results.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after 31 December 2019 affecting this Director's report.

CAPITAL STRUCTURE

At 31 December 2019, the Parent's share capital amounted to 163,718 thousand euros representing 327,435,216 shares a number identical to last year. All the shares are represented by book entries and are of the same class.

The Parent's shares are traded on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges. The ISIN code is ES0152503035.

Mediaset España Comunicación, S.A. has been an IBEX 35 listed company since 3 January 2005.

OUTLOOK FOR THE COMPANY'S BUSINESS DEVELOPMENT

The Group's business in 2020 will be inseparably linked to the completion of the tripartite merger of the Spanish, Italian and Dutch companies into "Media for Europe" (MFE), a merger which, as of the date of preparation of these financial statements, is awaiting the suspension or rejection in Spain and the Netherlands of the interim relief which Vivendi, a shareholder, has requested in relation to the resolutions of the General Meetings of Mediaset España and Mediaset Italia, taken on 4 September 2019, and which are pending resolution at the date of preparation of these Annual Accounts.

This merger is of an eminently strategic and industrial nature and is aimed at gaining the necessary scale to compete effectively in the new, highly globalized audio-visual environment in which digital technology requires joint efforts to achieve the objectives set, having quantified the specific synergies that will arise in specific areas of the business, particularly those related to new technologies and activities in the digital field.

The proposed merger will not affect the traditional television business activities that will continue to be carried out locally.

In relation to the operational activity of our Group's business, apart from the crystallisation of the proposed merger, it can be said that historically the free-to-air television line of business was directly dependent on advertising which, in turn, was seen to have a strong correlation with economic development in general and with consumer spending in particular, i.e. behaviour typical of cyclical businesses.

More recently, however, it has been observed that this cyclical nature has lessened because, although it is not possible to state unequivocally that advertising has disconnected from the macro economic variables, the evolution of the market that has been observed over the last few years does not coincide with the growth of both Gross Domestic Product and private consumption that has taken place in the same period.

In addition, albeit still in an early phase, but highly significant because it offers much higher growth than that afforded by more conventional advertising, the Group is increasing its revenue base towards activities which offer a promising future: revenue from digital advertising through our internet platforms, the sale of content to third parties taking advantage of the important weight our in-house productions have in our programme schedule together with the existence of a steadily increasing structural base for the creation of content both directly in house or through stakes in independent producers and all this without forgetting the growing demand for domestic production by the new audio-visual platforms.

Specifically with regard to this production and content-distribution activity, the Group created a company ("Mediterráneo") at the end of 2018 to serve as a content warehouse to bring together, from a business

perspective, those non-advertising activities which already have a proven record of experience and success and encompass a diverse range of categories such as entertainment, fiction, films, sporting events and digital formats, to which we add our experience in content marketing (we already have customers in approximately 190 territories) to other operators, channels, devices, SVOD platforms, etc, an activity that has continued in 2019 with strong growth rates.

Therefore, in light of the above and always mindful of retaining our position as a frontrunner and which has led us to maintain our undisputed lead among the Spanish communication groups, we can state that our Group intends to go beyond being a TV operator to become a media company in the broadest sense of the word, maintaining its privileged position where traditional television is concerned while working to strengthen and develop those new lines of business that are directly linked to traditional TV, which represents a huge opportunity and for which we are well prepared due to our experience and success both in advertising sales and in the creation, production and exploitation of multi-platform audio-visual content.

Based on data of television consumption measured in minutes/day and the weight of free-to-air television in terms of global audio-visual consumption via the various platforms, we expect the share of TV advertising revenues in the overall advertising pie remains high, demonstrating the importance of TV as a means of distributing advertising messages due to its penetration, simultaneous exposure to consumers, standardised audience and impact measurement techniques, and the security of its environment, namely, that it is a the strictly-regulated media.

We will continue our efforts to ensure the distribution of our content across all the platforms and devices available to viewers (TV, on-line platforms, etc.) by investing in both economic resources and personnel in line with what we have been doing in recent years, always following a strategy based on the sale of advertising via the various media as the main source of revenue.

In this context of an ever changing market and new forms of audio-visual content distribution, our Group's business strategy will continue to focus on maintaining our leadership position both in terms of audience and exploitation of the advertising market, with a strong presence in the production of in-house content both through our own resources and in association with independent producers, including those in which we have a non-controlling ownership interest and whose number has been increasing in recent years as the product typology base has expanded.

Indeed, we consider that robust and diverse in-house production provides us with a unique strong point that enables us both to equip ourselves with exclusive content that has historically been praised by the public and to take advantage of the marketing opportunity resulting from the emergence of new operators that demand quality content.

Regarding costs, we will continue with our traditional focus on them with the aim of determining an optimum base that will allow us to maximise our margins and cash flows by taking advantage of the operating leverage that is inherent to the free-to-air TV sector. This will be done by adapting to the conditions of the environment that affect the generation of income and helped by the weight of our in-house production.

When it comes to our programming grid, we will continue to exploit the genres that have historically been popular with audiences and that have made us the leading group, as well as our strategy of diversifying and focusing on audiences through our family of channels in order to achieve a better understanding of the audience and also a more attractive company profile for our customers. In the

context of sporting event rights our strategy will continue to focus on taking advantage of those windows of opportunity that enable us to transmit popular events capable of increasing our audience and advertising levels, provided that the cost of buying such rights allow us the possibility to make them profitable. In this regard, it should be noted that in 2020 our group will have practically all the major sports rights (particularly the European Championship for national teams, for which we have the rights for all matches) that will be broadcast on free-to-air television.

Finally, maintaining a solid financial and equity position will continue to be a key objective since we believe that it not only enables us to objectively consider, with the necessary independence, the operational and business opportunities that may arise in such a changing market, but it also strengthens our competitive position, given the high financial leverage that affects most companies operating in our sector.

We will continue to be alert to any possible investments (in particular with regard to our new digital or content production and distribution businesses) that may bring growth or increased margins to our Group, for which we consider the positive cash position and unchanged borrowing capacity to be a unique advantage.