



**PROMOTORA DE INFORMACIONES, S.A.**

**(PRISA):**

**AUDIT COMMITTEE**

**ANNUAL REPORT**

**2017**

**Madrid, March 2018**



*English translation for information purposes only.  
In case of discrepancies between the Spanish original and  
the English translation, the Spanish version shall prevail*

## ANNUAL REPORT OF THE AUDIT COMMITTEE

2017

### I. INTRODUCTION

The Audit Committee of PROMOTORA DE INFORMACIONES, S.A. ("PRISA", the "Company" or, when referring to its consolidated group, "Grupo PRISA") issues this report so that the Board of Directors, if it finds it to be appropriate, may make the information corresponding to the functions and activities undertaken during 2017 by that Committee available to the shareholders.

The Audit Committee (the "**Committee**") was created in 2001 (with the name "Audit and Compliance Committee") and has been adapting its functioning and composition to the rules and codes since then published in order to achieve maximum efficiency and transparency in listed public limited companies.

The Committee is governed by article 529 quaterdecies of the Restated Text of the Capital Companies Act (*Ley de Sociedades de Capital*, the "**LSC**") and by the internal rules developing it: article 25 of the Articles of Association and the Regulations of the Board of Directors of PRISA (the "**Board Regulations**"), which were partially amended in 2017 to adapt them to the text of article 529 quaterdecies of the LSC given by Act 22/2015 of 20 July 2015 on Audit of Accounts, which entered into effect on 17 June 2016.

Under the new legal scheme, the Committee must have a majority of independent directors. Also, as a group, the members of the Committee must have the pertinent technical knowledge in relation to the Company's business sector.

### II. COMPOSITION

The composition of the Committee as of the date hereof:

Chairman: Mr. Dominique D'Hinin, independent external director. He has broad experience in the communications media sector and financial management of companies.

Members: Mr. Walid Saadi, proprietary external director. He has broad experience in auditing and business restructuring.

Ms. Sonia Dula, independent external director. She has broad experience in the investment banking sector and media companies.

Mr. Javier Gomez-Navarro, independent external director. He has a remarkable professional career in both the Public Administration and private sector. He also was one of the founder shareholders of El País.

The profiles of the members of the Committee are available on the Company's corporate website. They may be accessed by way of the following link:

<https://www.prisa.com/es/info/consejo-de-administracion-y-comisiones-del-consejo>

Throughout 2017 the Company undertook a restructuring of the composition of the Board of Directors, and also of its committees. Specifically, Mr. Glen Moreno (the prior Chairman of the Committee), Ms. Elena Pisonero Ruiz and Mr. José Luis Leal Maldonado have ceased to be a part of this Committee, ceasing to be directors last 15 November.

The election of the members of the Committee sought to combine different personal and professional profiles, so that the Committee would have a broad perspective of Grupo PRISA and the economic environment. In the election of Mr. Saadi, in particular, great weight was placed on his broad experience in audit matters.

The composition of the Committee complies with current law and the provisions of the internal rules of the Company (article 25 of the Articles of Association and article 27 of the Board of Directors Regulations):

- i. The Audit Committee must be composed of the number of Directors from time to time determined by the Board of Directors, with a minimum of three (3) and a maximum of five (5). At 31 December 2017, the Committee had three (3) members.
- ii. The Committee must be composed exclusively of non-executive directors appointed by the Board of Directors, the majority of which must be independent directors. The Chairman of the Committee must be an independent director. At 31 December 2017, the three (3) members of the Committee were non-executive directors, two (2) of them, including the Chairman, being independent directors.
- iii. At least one of its members will be appointed on the basis of knowledge and experience of accounting or auditing, or both. As a group, the members of the Committee will have the pertinent technical knowledge in relation to the Company's business sector. For these purposes it is noted that all of the members of the Committee are professionals of high standing, with knowledge and experience in these matters.
- iv. Also, the Secretary of the Committee is the Secretary of the Board of Directors, in accordance with the aforesaid internal provisions.

### III. FUNCTIONS AND POWERS

In accordance with article 27.3 of the Board of Directors Regulations, the Committee shall have the powers contemplated in the applicable legislation from time to time, the Committee also having authority to evaluate everything related to nonfinancial risks of the company (including operational, technological, legal, social, environmental, political and reputational risks).

Also, in accordance with the provisions of the Board Regulations the Committee is to supervise the complaints channel that allows communication of irregularities of potential importance that are discovered within Grupo PRISA. When the complaints are submitted by employees of the Company or Grupo PRISA, the complaints channel provides for confidential and anonymous treatment of the complaints.

On the other hand, the Committee may engage external advisors, when it feels this is necessary for the discharge of its duties.

### IV. MEETINGS

The Board of Directors Regulations provide that the Committee will meet from time to time, as needed, but no less than four (4) times per year.

Over the course of 2017 the following meetings of the Committee were held:

Date	Members	Members Attending	PRISA Officers	Internal Auditor	External Auditor
16 February	4	3	Yes	Yes	Yes
23 February	4	3	Yes	Yes	Yes
28 April	4	3	Yes	Yes	No
27 July	4	4	Yes	Yes	Yes
28 September	4	4	Yes	Yes	Yes
14 November	4	4	Yes	Yes	Yes

Also, the members of the committee held two additional meetings that were not formally constituted as such (on 15 September and 19 December), with the presence in both cases of the director of Internal Audit and in the latter case the External Auditor.

## **V. SIGNIFICANT ACTIVITIES**

### **Review of financial and nonfinancial reporting**

Notable under this point are the review of the annual accounts for the 2016 fiscal year and the periodic public reporting in 2017:

#### **2016 fiscal year:**

In line with the practice of this Committee, the external auditor met with the Committee to advance the preliminary results of its report on the accounts of the 2016 fiscal year.

The committee reviewed both the annual accounts for the 2016 fiscal year end the short-form financial statements for the 2016 fiscal year that will be sent to the CNMV for statistical purposes.

The external auditor presented its conclusions on the audit of the consolidated annual accounts of Grupo PRISA for the 2016 fiscal year. Also, the Auditor attended the Board of Directors meeting to report on the scope and results of the audit performed.

#### **2017 fiscal year:**

As regards examination of the periodic public reporting (quarterly and semi-annual), which the Company disclosed in compliance with the legal requirements, the Committee reviewed it, also assisted by the Auditor, the semi-annual reporting for the 2017 fiscal year, on which it performed a limited review.

Also, the Committee reviewed the balance sheet of the Company and the notes thereto at 31 August 2017; this balance sheet was audited by reason of the reduction of capital proposed to the General Meeting of Shareholders, and ultimately was approved at the Extraordinary Meeting held on 15 November 2017.

Also, at the meeting of 14 November, the External Auditor presented to the Committee the planning for the audit of accounts of Grupo PRISA for the 2017 fiscal year.

At the beginning of 2018, the External Auditor also met with the Committee to offer its first analysis of the accounts for the 2017 fiscal year.

### **External Auditor**

#### **Appointment of the Auditor:**

As indicated in section 6.1 below, the Committee resolved to propose to the Board the extension of the appointment of the auditor, Deloitte, S.L., for the 2017 fiscal year. The General Meeting of Shareholders held on 30 June 2017 approved that proposal.

#### **Independence of the external auditor:**

The regulatory requirements in this regard have been fulfilled, as reported under heading 6.3 below.

Prior approval of other professional engagements:

During the 2017 fiscal year, at the various meetings of the Committee, specific proposals for engagement of the services of the Auditor were examined and approved, following the established preapproval procedure.

Professional fees:

The Committee approved the professional fees proposal of the external auditor for audit of the annual accounts for the 2017 fiscal year.

Attendance of the external auditor at meetings of the Board and the Committee:

The team responsible for audit of the accounts of Grupo PRISA attended several meetings of the Committee, and the meeting of the Board of Directors in which the annual accounts for the 2016 fiscal year were formulated. Also, the external auditor held meetings with the members of the Committee, with no formal meeting having been constituted.

**Systems for Risk Management and Internal Control of Financial Reporting**

The Committee monitored the results of the evaluation of the internal control of financial reporting of Grupo PRISA. In particular, the Internal Audit Director reported the results of the compliance testing of the internal control model in 2016, and the External Auditor reported in the Committee meeting in February 2017 on its evaluation of the functioning of the internal control system of Grupo PRISA in 2016.

During the 2017 fiscal year the Internal Audit Director reported on the scope of the system for internal control of financial reporting in 2017 and the preliminary results of the compliance testing that was performed.

In relation to risk management, the Internal Audit Department presented the risk maps of the business units and Grupo PRISA, prepared with the participation of the heads of the business units, with the principal risks of Grupo PRISA being analysed by the Committee.

The Committee approved the sections related to the systems for risk management and the System for Internal Control of Financial Reporting (*Sistema de Control Interno de la Información Financiera*, "SCIIF") in the Annual Corporate Governance Report corresponding to the 2017 fiscal year.

**Internal audit projects**

The Internal Audit Director presented the Internal Audit Plan for the 2017 fiscal year, focusing principally on integration of processes for internal control of financial reporting and compliance, as well as implementation of the audit plans and review of internal control of the companies and countries included within the strategic audit plan for the 2017 fiscal year. Also, the Internal Audit Plan for 2017 contemplates review of the criminal compliance model for the 2016 fiscal year in Spain, and the monitoring of the implementation of the action plans defined in that model during the 2017 fiscal year.

### **Treasury Share Policy**

The Company was regularly advised of the movements in the Company's treasury shares.

### **Related party transactions**

During the 2017 fiscal year of the Committee analysed certain related party transactions, promptly reporting its conclusions to the Board of Directors.

### **Other matters**

#### **Meetings with the management team:**

The Committee held meetings with a part of the management team, including the financial director, to review the key issues affecting the financial situation of the Company, its capital structure and its balance sheet.

#### **Refinancing Agreements:**

Grupo PRISA's debt, as well as milestones and various matters related to the refinancing agreements of the Company, were analysed.

#### **Equity:**

The Company's equity situation was analysed, as were the impact thereon of the loss recorded as a result of the agreement to sell Media Capital, and the various corrective measures adopted to re-establish balance of assets and liabilities, with the most significant being the reduction of capital approved in November 2017 and, thereafter, the capital increase already recorded in February 2018.

#### **Criminal Prevention Model:**

The Committee during 2017 monitored the action plans in course for the model for prevention and detection of crimes related to controls, procedures and policies, pending definition or implementation.



#### Compliance Unit:

The Compliance Unit of PRISA (composed of the General Counsel of Grupo PRISA, the Internal Audit Director of PRISA and the Human Resources Director of PRISA), reports to the Committee, to which it regularly reported its activities throughout the fiscal year. Its activities focused basically on supervision of the criminal prevention model for the various businesses in Grupo PRISA in Spain, and coordination of its communications and training actions.

#### Complaints Channel:

Grupo PRISA has a Complaints Channel, managed by PRISA's Compliance Unit, through which employees and any third party may, on an anonymous and confidential basis, report corrupt practices within Grupo PRISA.

Throughout the year the PRISA Compliance Unit reported regularly to the Committee on the functioning of and incidents reported on the complaints channel.

#### Audit Act:

The Committee analysed the impact of this law on relations with the external auditor (rotation and independence of the auditor).

#### Report of the Audit Committee:

The Committee approved the Audit Committee Report for the 2016 fiscal year.

## **VI.- EXTERNAL AUDIT**

### **6.1. Relations with the External Auditor**

The Committee proposed to the Board of Directors the extension of the appointment of Deloitte, S.L. as the auditor of the Company and its Consolidated Group for a period of one year. On proposal of the Board of Directors, the Ordinary General Meeting of PRISA on 30 June 2017 adopted a resolution to appoint that firm to perform the audit of the financial statements corresponding to the 2017 fiscal year.

As indicated above, it is the customary practice of the Committee to monitor the annual accounts and the financial reporting of the Company and Grupo PRISA, and the risks associated therewith, on a regular basis. To that end, during the 2017 fiscal year the Deloitte team responsible for the external audit of the Company and Grupo PRISA attended several meetings of the Committee, reporting on the most relevant matters arising during the audit of accounts.

The fees for the annual account audit services for the 2017 fiscal year, provided by Deloitte, S.L. to the various companies composing Grupo PRISA and subsidiaries, as well as

other entities related thereto, amounted to 1,671 thousand euros, of which 296 thousand euros correspond to the Company.

In addition, the fees of other auditors participating in the audit of the 2017 fiscal year of various companies in Grupo PRISA amounted to 326 thousand euros.

On the other hand, the details of the fees related to other professional services rendered to the various companies in the Group by the principal auditor and other entities related thereto, as well as those rendered by other auditors participating in the audit of the various companies in the Group is as reflected in the following table (in thousands of euros):

	2017		2016	
	Audit of accounts and related companies	Other audit firms	Audit of accounts and related companies	Other audit firms
Other verification services	395	72	472	22
Tax advice services	50	429	222	348
Other services	257	2,083	747	1,189
<b>Total other professional services</b>	<b>702</b>	<b>2,584</b>	<b>1,441</b>	<b>1,559</b>

The information related to fees shown above will be included in both the individual and the consolidated reports of PRISA for the 2017 fiscal year.

## 6.2. External Auditor Reports

### **Audit report on the system for internal control of financial reporting for the 2016 financial year**

In the 2016 financial year Deloitte examined the internal control of financial reporting of the Group based on the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its Internal Control Integrated Framework report (2013). In the opinion of the auditor, issued on 27 February 2017, Grupo PRISA in 2016 maintained an effective system for internal control of financial reporting contained in the consolidated annual accounts.

### **Report on audit of annual accounts for the 2016 financial year**

The external auditor issued its audit opinion on the individual and consolidated annual accounts of Promotora de Informaciones, S.A. for the 2016 financial year which, in all significant respects, presented a true picture of the assets, liabilities, financial situation, results of operations, changes in net worth and cash flows of the Company and Grupo PRISA, respectively.

#### **Limited review of consolidated short-form interim financial statements at 30 June 2017**

During the 2017 fiscal year the External Auditor undertook a limited review of the short-form interim financial statements of Grupo PRISA.

In the opinion of the auditor, issued on 28 July 2017, as a result of its review there was no matter leading it to conclude that the interim financial statements at 30 June 2017 were not prepared, in all significant respects, in accordance with the requirements established in International Accounting Standard 34, Interim Financial Reporting. However, a paragraph of emphasis was included to note the situation of imbalance of assets and liabilities of PRISA at 30 June 2017.

#### **Audit report on the individual balance sheet of Prisa at 31 August 2017**

The external auditor issued its audit opinion on the individual balance sheet of Prisa at 31 August 2017, and on the explanatory notes thereto, a report required in order to approve the reduction of capital necessary to re-establish the balance of assets and liabilities of the company. In the opinion of the auditor the balance sheet, in all significant respects, presented a true image of the assets, liabilities and financial situation of Prisa at 31 August 2017.

This report, in accordance with the new model of audit report in effect, as key audit issues reflected the recovery of deferred tax assets, the maturity of the debt to credit institutions and the aforesaid imbalance of assets and liabilities, a situation that was remedied by the reduction of capital approved on 15 November 2017

#### **Audit reports on the annual accounts for the 2017 fiscal year and on the system for internal control of financial reporting for the 2017 fiscal year**

In the meeting of the Committee held on 21 March 2018, the external auditor presented its preliminary conclusions on the audit of the individual and consolidated annual accounts of Promotora de Informaciones, S.A. for the 2017 financial year which, in all significant respects, present a true picture of the assets, liabilities, financial situation, results of operations, changes in net worth and cash flows of the Company and Grupo PRISA, respectively. The external auditor also presented the results of the audit of the system for

internal control of financial reporting of Grupo PRISA for the 2017 fiscal year. In the opinion of the external auditor, during the 2017 fiscal year PRISA, in all relevant respects, maintained effective internal control of the financial reporting.

### **6.3. Independence of the External Auditor**

In compliance with the provisions of current legislation:

- i) The Committee received written confirmation from the External Auditor of its independence in respect of the 2017 fiscal year, as well as the information related to fees of the principal auditor and its related entities, for other professional services rendered to the various companies in Grupo PRISA (which are reported in section 5.1 above), in accordance with the provisions of the Audit Act;
- ii) The Committee issued a report stating, in view of the foregoing, its conclusions regarding the independence of the external auditors during the 2017 fiscal year. In compliance with Recommendation 6 of the Uniform Code of Good Governance of the CNMV, the Company will, as it did in the prior fiscal year, publish this report on its website, sufficiently in advance of the holding of the ordinary general meeting of shareholders.

## **VII. INTERNAL AUDIT**

The main objective of the Internal Audit Department is to provide management of Grupo PRISA and the Committee with reasonable assurance that the internal control systems and environment in effect within the Group companies have been properly designed and managed.

This objective is achieved by exercise of the functions given to it, in particular:

- a. Evaluation of the adequacy of the internal control systems to contribute to greater effectiveness of the processes of management and control of the risks inherent in the activities undertaken by the companies in Grupo PRISA.
- b. Review of the reliability and integrity of the financial and operating information of the Grupo PRISA companies, and the means used to identify, evaluate, classify and report that information.
- c. Independent opinion and verification regarding the interpretation and application of applicable accounting standards.
- d. Review of the means of safeguarding assets and verification of their existence

The Internal Audit Department designs an Annual Plan based on identification and evaluation of the risks inherent in the activities undertaken by the units of Grupo PRISA, in order to determine the priorities for internal audit activity.

Internal Audit's Annual Plan reflects the activities to be carried out by Internal Audit over the course of the year. The aforesaid Plan, which is a part of the multiyear or strategic audit plan, specifies the activities and projects to be undertaken, the nature of the work and the resources of the Internal Audit Department assigned to each project.

The following are notable among the most significant projects undertaken by Internal Audit during the 2017 fiscal year:

- a. Evaluation of the design and functioning of the control activities defined in the internal control model for financial reporting of Grupo PRISA, in order to verify the effectiveness thereof.
- b. Review of the degree of compliance with the valuation and accounting record standards established by Grupo PRISA, and evaluation of the adequacy and effectiveness of the internal control environment in operation in Grupo Santillana companies located in Bolivia, Uruguay, Guatemala, Honduras and El Salvador, as well as the company that develops the UNO education system business in Brazil.
- c. Review of the reasonableness of the financial information reported to Grupo PRISA and the effectiveness of the internal control system in the companies engaged in the radio activity in Spain and Panama.
- d. Analysis of the reasonableness of the financial reporting of the magazine company in Spain.
- e. Evaluation of the functioning of the model for prevention and detection of crimes in the companies in Grupo PRISA located in Spain, in order to verify the effectiveness thereof.

The Internal Audit Director attended all of the meetings held by the Committee throughout the 2017 fiscal year, in particular reporting on the activities undertaken by the Internal Audit Department, on the development of the Annual Plan, on the risk map of Grupo PRISA and its evolution, as well as on the evolution of the functioning and development of the system for internal control of financial reporting, and the model for prevention and detection of crimes in Spain.

### **VIII. EVALUATION OF THE AUDIT COMMITTEE**

Within the framework of the process of evaluation of the Board, contemplated in art. 5 of the Board of Directors Regulations, the members of the Committee will evaluate its composition and functioning and refer its conclusions to the Board for approval.

The evaluation procedure contemplated in section 2.8 (paragraphs 76 and following) of Technical Guide 3/2017 on Audit Committees of Public-Interest Entities (prepared by the CNMV, and dated 27 June 2017) is in process of implementation by the Committee. Its complete application is expected during this fiscal year.

### **IX. PRACTICAL GUIDES**

The Committee takes Technical Guide 3/2017 on Audit Committees of Public-Interest Entities, prepared by the CNMV, as the basis for its functioning.

In addition, on a subsidiary basis, other guidance documents are taken into account, such as the recommendations regarding Audit Committees in the Code of Good Governance of Listed Companies of the CNMV.

### **X. CONCLUSIONS**

The Committee has specific responsibilities to advise the board of directors and supervise and control the processes of preparation and presentation of financial information, the independence of the auditor and the effectiveness of the internal systems for control and management of risks, without prejudice to the responsibility of the board of directors.

The composition of the Committee facilitates performance of the tasks assigned to it, with complementary experience and technical knowledge of its members, all with distinguished professional careers.

Among the activities undertaken by the Committee throughout the 2017 fiscal year, it is worth highlighting the review of the annual accounts for the 2016 fiscal year and the regular public reporting in 2017 regarding the Company and Grupo PRISA, the review of the Company's balance sheet and the notes thereto at 31 August 2017, as well as the monitoring of the results of both the evaluation of internal control of financial reporting (SCIIF) and the action plans of the model for prevention and detection of crimes.

In the performance of its functions, the Committee has maintained smooth and recurrent dialogue with the management team of Grupo PRISA, with the PRISA Internal Audit Director and with the partner of the audit firm responsible for verification of the accounts of the Company and Grupo PRISA.



**In Madrid, 21 March 2018.**  
**The Audit Committee**  
**PROMOTORA DE INFORMACIONES, S.A.**