



**PROMOTORA DE INFORMACIONES, S.A.  
(PRISA)**

**AUDIT, RISKS AND COMPLIANCE COMMISSION**

**ANNUAL REPORT  
2018**

Madrid, March 2019.

**ANNUAL REPORT OF THE AUDIT, RISKS AND COMPLIANCE COMMISSION**  
**2018**

**I.- INTRODUCTION**

The Audit, Risks and Compliance Commission of PROMOTORA DE INFORMACIONES, S.A. (“PRISA” or the “Company”) (hereinafter, the “Commission”) issues this report so that the Board of Directors may make the information on the functions and activities undertaken during 2018 by that Commission available to the shareholders.

The Commission is governed by article 529 quaterdecies of the Restated Text of the Capital Companies Act (Ley de Sociedades de Capital, the “LSC”), by the Articles of Association and by the Board of Directors Regulation of PRISA.

**II.- COMPOSITION**

In the first quarter of 2018 PRISA revised and updated the main internal rules of the Company (Articles of Association, Regulation of the General Meeting of Shareholders and Board of Directors Regulation) in order to adapt the Company's corporate governance system to the best existing standards, in the context of the significant changes made in its capital and governance structure.

Amongst other areas, the organisational structure and operating procedures of the corporate bodies were reviewed and, as from 25 April 2018, the previous Audit Commission was renamed Audit, Risks and Compliance Commission, thereafter taking on diverse responsibilities for compliance matters.

The composition of the Commission at 31 December 2018 and at the date this report is issued is as follows:

Chairman:

- Mr. Dominique D’Hinnin, independent external (non-executive) director, with broad experience in the communications media sector and financial management of companies.

Members:

- Mr. Walid Saadi, proprietary external director, with broad experience in auditing and business restructuring;
- Ms. Sonia Dulá, independent external director, with broad experience in investment banking and communication media businesses.

The profiles of the members of the Commission are available on the Company's corporate website. They may be consulted via this link

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

The Commission's composition complies with the requirements of the applicable laws and with the provisions of the Company's Board of Directors Regulation, which require that the Commission be entirely made up of non-executive directors a majority of them independent directors. The Chairman of the Commission is an independent director.

The Commission members have been appointed taking into account their knowledge and experience in accounting, auditing or risk management matters.

The Secretary of the Commission is the Secretary of the Board of Directors.

The only change in the Commission's current composition during the year was the temporary directorship held by the independent director Mr. Javier Gómez Navarro Navarrete, from 27 February to 21 March 2018

### **III.- FUNCTIONS AND POWERS**

In addition to the functions ascribed to it by law, the Audit, Risks and Compliance Commission also has the responsibilities laid down in article 27.4 of the Board of Directors Regulation.

In this respect, and without including the details of the responsibilities set out in the aforesaid article, the Commission is charged with:

- i) Endeavouring to ensure that the Board of Directors can present the financial statements to the General Shareholders' Meeting without limitations or qualifications in the auditor's report.
- ii) Supervising the Internal Audit unit so that it ensures that the internal reporting and control systems function properly. The Commission will evaluate the Internal Audit unit and approve the functions, plans of actions and resources of that unit yearly.
- iii) With respect to internal control and reporting systems and the units responsible for those functions: Supervising the preparation and completeness of the financial information relating to the Company and to the Group, ensuring the independence of the Internal Audit unit, approving its work plans and approach, receiving periodic information on its activities and verifying that senior management is acting on the findings and recommendations of its reports.
- iv) With regard to the external audit, channelling the relations with the auditor while ensuring compliance with the rules on independence of auditors. It will be responsible for the processing of nominating the statutory auditor, taking into account the criteria set out in article 27 of the Board of Directors Regulation.

- v) Examining compliance with the Board Regulations, the Internal Rules of Conduct and, in general, the Company's governance rules, and making proposals for improvement as a result of that analysis.
- vi) Evaluating all aspects of the non-financial risks of the Company, including the operational, technological, legal, social, environmental, political and reputational risks.

#### **IV.- MEETINGS**

The Board of Directors Regulation provides that the Commission will meet periodically as needed, and no less than four (4) times per year.

Over the course of 2018 the following meetings of the Committee were held:

| <b>Date</b> | <b>Members</b> | <b>Members Attending</b> | <b>PRISA Officers</b> | <b>Internal Auditor</b> | <b>External Auditor</b> |
|-------------|----------------|--------------------------|-----------------------|-------------------------|-------------------------|
| 16 January  | 3              | 2                        | Yes                   | Yes                     | No                      |
| 27 February | 4              | 3                        | Yes                   | Yes                     | Yes                     |
| 21 March    | 3              | 3                        | Yes                   | Yes                     | Yes                     |
| 25 April    | 3              | 3                        | Yes                   | Yes                     | No                      |
| 26 June     | 3              | 3                        | Yes                   | Yes                     | No                      |
| 24 July     | 3              | 3                        | Yes                   | Yes                     | No                      |
| 30 October  | 3              | 3                        | Yes                   | Yes                     | Yes                     |
| 17 December | 3              | 2                        | Yes                   | Yes                     | Yes                     |

The Commission has also timely reported to the Board of Directors on its deliberations and actions, which are summarised below.

#### **V.- SIGNIFICANT ACTIVITIES IN 2018**

##### **Review of financial and non-financial reporting**

Notable under this point are the review of the annual accounts for the 2017 financial year and of the periodic public reporting in 2018:

#### 2017 financial year:

In line with the practice of this Commission, the external auditor met with the Commission to advance the preliminary results of its report on the accounts of the 2017 financial year.

The Commission reviewed both the annual accounts for the 2017 financial year and the short-form financial statements for the 2017 financial 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 2017 financial year. Also, the Auditor attended the Board of Directors meeting to report on the scope and results of the audit performed.

#### 2018 financial year:

As regards examination of the periodic reporting (quarterly and half-yearly) which the Company makes public in compliance with the legal requirements, the Commission reviewed said reporting, also assisted by the External Auditor in relation to the half-yearly reporting for the 2018 financial year, on which it performed a limited review.

Also, at the meeting of 30 October, the External Auditor presented to the Commission the audit plan for the accounts of Grupo PRISA for the 2018 financial year.

At the meeting of 17 December, the External Auditor reported that the planning work had been completed and that a large part of the preliminary work that will facilitate the analysis of the 2018 accounts had been executed.

### **External Auditor**

#### Appointment of the Auditor:

As indicated in section 6.1 below, the Commission resolved to propose to the Board that the appointment of the auditor Deloitte, S.L. be extended for the 2018 financial year. The General Meeting of Shareholders held on 25 April 2018 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 2018 financial year, at the various meetings of the Commission, specific proposals for engagement of the services of the Auditor were examined and approved, following the established preapproval procedure.

#### Professional fees

The Commission approved the professional fees quoted by the external auditor for audit of the annual accounts for the 2018 financial year.

#### Attendance of the external auditor at meetings of the Board and the Commission:

The team responsible for audit of the accounts of Grupo PRISA attended several meetings of the Commission, and the meeting of the Board of Directors in which the annual accounts for the 2017 financial year were formulated.

#### **Systems for Risk Management and Internal Control over Financial Reporting**

The Commission monitored the results of the evaluation of the system for Internal Control over Financial Reporting (ICFR system) of Grupo PRISA. In particular, the head of Internal Audit reported the results of the testing of the internal control model in 2017, and the External Auditor reported in the Commission meeting in March 2018 on its evaluation of the functioning of the internal control over financial reporting system of Grupo PRISA in 2017.

During 2018 the head of Internal Audit Director also reported on the scope of the system for internal control over financial reporting in 2018 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, and the principal risks of Grupo PRISA were analysed by the Commission.

At its February 2018 meeting, the Commission approved the sections relating to the systems for risk management and the System for Internal Control over Financial Reporting (ICFR system) in the 2018 Annual Corporate Governance Report.

#### **Internal Audit Projects**

The head of Internal Audit presented the Internal Audit Plan for the 2018 financial year, primarily focusing on the integration of processes for internal control and risk management of financial reporting, regulatory compliance and operational efficiency, 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 2018 financial year. Also, the Internal Audit Plan for 2018 contemplates review of the criminal compliance model for the 2017 financial year in Spain, and the monitoring of the implementation during 2018 of the action plans defined after that review.

### **Treasury Stock Policy**

The Commission was regularly informed of the movements in the Company's treasury stock.

### **Related party transactions**

During the 2018 financial year the Commission analysed certain related party transactions, promptly reporting its conclusions to the Board of Directors.

### **Other matters**

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

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

#### **Restructuring and financing of the Company:**

The Company's equity situation was analysed, highlighted by the capital subsequently approved by the Board of Directors on 22 January 2018 for a total cash amount of up to 563.2 million euros.

As regards the financial structure, the debt of Grupo PRISA was analysed, as were, in connection with the refinancing of the Group, the agreements with lenders and different matters relating to the Company's refinancing agreements.

#### **Sale of Grupo Media Capital SGPS, S.A. to Altice NV:**

It was verified that in the financial reporting for the first half of 2018, Media Capital was again recorded as a continuing activity, due to termination of the contract for sale of Grupo Media Capital (reported to the market on 18 June 2018 in the pertinent material disclosure) for non-fulfilment of the contractual condition precedent that the prescribed authorisation be obtained from Portuguese antitrust authorities.

#### **Model for Prevention of Criminal Liability:**

During 2018 the Commission monitored the action plans for the model in place in the Group companies in Spain for prevention and detection of criminal wrongdoing implemented in relation to controls, procedures and policies pending definition or implementation.

In 2018 the Investment and Funding Policy was drawn up within the framework of the Grupo Prisa model for prevention and detection of criminal wrongdoing.

In 2018, EY examined, as an independent expert, the design and functioning during 2017 of the model for prevention and detection of criminal wrongdoing of Grupo

PRISA. In the opinion issued by EY on 23 April 2018, the design and operational effectiveness in 2017 of the Grupo PRISA model for prevention and detection of criminal wrongdoing were adequate.

#### Compliance Unit:

The Compliance Unit of PRISA (composed of the General Secretary of Grupo PRISA, the head of Internal Audit of PRISA and the head of Human Resources of PRISA), reports to the Commission, periodically informing it of the unit's activities throughout the year. Those activities were basically focused on supervision of the model for prevention and detection of criminal wrongdoing of the various businesses of Grupo PRISA in Spain, and coordination of its communications and training actions.

#### Whistleblowing Channel:

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

Throughout the year the PRISA Compliance Unit reported regularly to the Commission on the operation and incidents of the whistleblowing channel.

#### European Data Protection Regulation:

The Commission was informed of the Company's actions regarding data protection matters aimed at adapting its processes to the requirements of the new European Data Protection Regulation that went into effect on 25 May.

#### Report of the Audit Committee:

The Commission approved the Audit Committee Report for 2017.

## **VI.- EXTERNAL AUDIT**

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

The Commission proposed to the Board of Directors the extension of the appointment of Deloitte, S.L. as statutory 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 25 April 2018 adopted a resolution to appoint that firm to perform the audit of the financial statements for the 2018 financial year.

As indicated above, it is the customary practice of the Commission to monitor the annual accounts and the financial reporting of the Company and Grupo PRISA, and the associated risks, on a regular basis. To that end, during the 2018 financial year the Deloitte team responsible for the external audit of the Company and Grupo PRISA attended several meetings of the Commission, reporting on the most significant matters arising during the audit of accounts.



The fees for the annual account audit services for the 2018 financial year provided by Deloitte, S.L. to the various companies comprised by Grupo PRISA and subsidiaries, as well as other entities related thereto, amounted to 1,600 thousand euros, of which 296 thousand euros correspond to the Company.

In addition, the fees of other auditors participating in the audit of the 2018 financial year of various companies in Grupo PRISA amounted to 257 thousand euros.

Shown below in the accompanying table is the breakdown 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 (in thousands of euros):

|  | 2018                                   |                   | 2017                                   |                   |
|--|--|-------------------|--|-------------------|
|  | Accounts auditor and related companies | Other audit firms | Accounts auditor and related companies | Other audit firms |
| Other assurance services                 | 622                                    | 60                | 395                                    | 72                |
| Tax advice services                      | 71                                     | 569               | 50                                     | 429               |
| Other services                           | 63                                     | 1,073             | 257                                    | 2,083             |
| <b>Total other professional services</b> | <b>756</b>                             | <b>1,702</b>      | <b>702</b>                             | <b>2,584</b>      |

The information on fees shown above will be included in both the individual and the consolidated reports of PRISA for the 2018 financial year.

## 6.2. External Auditor Reports

### **Audit Report on the system for Internal Control over Financial Reporting in financial year 2017**

In a review carried out in accordance with the requirements of the ISAE 3000 standard for reasonable assurance reports, Deloitte evaluated the effectiveness of the Group's system for Internal Control over Financial Reporting, which is based on the guidelines issued 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 22 March 2018, Grupo PRISA in 2017 maintained an effective system for internal control of the financial reporting contained in the consolidated annual accounts.

### **Report on audit of annual accounts for the 2017 financial year**

On 22 March 2018 the External Auditor issued its audit opinion on the individual and consolidated annual accounts of Promotora de Informaciones, S.A. for the 2017 financial year which, in all material respects, gave a true and fair view of the

assets, liabilities, financial situation, results of operations and cash flows of the Company and Grupo PRISA, respectively.

**Limited review of consolidated short-form interim financial statements at 30 June 2018**

During the 2018 financial 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 24 July 2018, as a result of its review there was no matter leading it to conclude that the interim financial statements at 30 June 2018 were not prepared, in all significant respects, in accordance with the requirements established in International Accounting Standard 34, Interim Financial Reporting.

**Audit reports on the annual accounts for the 2018 financial year and on the system for internal control over financial reporting for the 2018 financial year**

At the Commission's meeting held on 25 February 2019, 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 2018 financial year. At the Commission meeting of 12 March 2019, the External Auditor presented the results of the audit of the System of Internal Control over Financial Reporting of Grupo PRISA for the 2018 financial year. In the opinion of the External Auditor, PRISA maintained during financial 2018, in all material respects, effective internal control over financial reporting. Furthermore, at the March 2019 Commission meeting the Auditor presented its conclusions on the audit of the individual and consolidated annual financial statements of Prisa for financial 2018, which gave, in all material respects, a true and fair view of assets and liabilities, of the financial position, results of operations and cash flows of the Company and Grupo PRISA, respectively.

**6.3. Independence of the External Auditor**

As provided by the legislation in force:

- i) The Committee received written confirmation from the External Auditor of its independence in respect of the 2018 financial year, as well as the information on the 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 Spanish Audit Act (Ley de Auditoría de Cuentas);
- ii) The Commission issued a report stating, in view of the foregoing, its conclusions regarding the independence of the external auditors during the

2018 financial 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 financial year, publish this report on its website, sufficiently in advance of the holding of the ordinary general meeting of shareholders.

## **VII.- INTERNAL AUDIT**

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

Achieving this objective involves exercise of the functions assigned to that department, in particular:

- a. Evaluation of the adequacy of the internal control systems to contribute to greater effectiveness of the processes for managing and controlling the risks inherent in the activities pursued by Grupo PRISA companies.
- b. Review of the reliability and completeness 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 verifying their existence.

The Internal Audit Department designs an Annual Plan based on identifying and assessing 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. That 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 2018 financial year:

- a. Evaluation of the design of the model for internal control over financial reporting of the Group and of the operational effectiveness of the control activities defined in that model.
- 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 Paraguay, Colombia, Ecuador and

in the company that distributes and sells editorial and educational products in Spain.

- c. Analysis of the reasonableness of financial reporting and internal control procedures in the company that sells advertising for the Group in Spain and of the group of companies based in Mexico and USA that provide digital advertising sale services.
- d. 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 radio, press and advertising sale activities in Chile.
- e. Analysis of the reasonableness of the financial information and of the internal control procedures of the company that provides administrative and accounting services at the corporate level and to the press business, and of the company that provides technology development and maintenance services for the Group in Spain.
- f. Evaluation of the operational effectiveness of the model for prevention and detection of criminal wrongdoing of the Group companies located in Spain.

The head of Internal Audit attended all of the meetings held by the Commission throughout the 2018 financial year, in particular reporting on the activities undertaken by the Internal Audit Department, on the development of the Annual Plan, on the risks map of Grupo PRISA and its evolution, as well as on the performance and development of the system for internal control over financial reporting, and the model for prevention and detection of criminal wrongdoing in Spain.

#### **VIII.- EVALUATION OF THE AUDIT, RISKS AND COMPLIANCE COMMISSION**

As part of the process of evaluating the Board provided for in article 5 of the Board of Directors Regulation, the members of the Commission will evaluate its composition and functioning and refer its conclusions to the Board for approval.

#### **IX.- PRACTICAL GUIDELINES**

The Commission uses the CNMV Technical Guide 3/2017 on Audit Committees of Public-Interest Entities as basis for its functioning.

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

## **X.- CONCLUSIONS**

In addition to the duties envisaged in the relevant legislation and that rest with it under article 27.4 of the Board of Directors Regulation, the Commission has specific responsibilities to advise the Board of Directors and supervise and control the processes of preparing and reporting financial information, the independence of the statutory auditor and the effectiveness of the internal risk management and control systems, without prejudice to the responsibility of the Board of Directors.

The composition of the Commission facilitates performance of the tasks assigned to it, given the complementary fit of experience and technical expertise of its members, all of whom have distinguished professional careers.

Among the activities carried on by the Commission throughout the 2018 financial year, attention may be called to the review of the annual accounts for the 2017 financial year and the periodic public reporting in 2018 regarding the Company and Grupo PRISA, as well as the monitoring of the results of the evaluation of the system for internal control over financial reporting (ICFR) and the action plans of the model for prevention and detection of criminal wrongdoing.

In the performance of its functions, the Commission has maintained fluid and ongoing dialogue with the management team of Grupo PRISA, with the head of PRISA Internal Audit and with the partner of the audit firm responsible for examining the accounts of the Company and Grupo PRISA.

Madrid, 12 March 2019  
Audit, Risks and Compliance Commission  
PROMOTORA DE INFORMACIONES, S.A.