

Grupo PRISA



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

AUDIT AND COMPLIANCE COMMITTEE

**ANNUAL REPORT
2004**

Madrid, January, 2005

**ANNUAL REPORT OF THE
AUDIT AND COMPLIANCE COMMITTEE
2004**

I.- INTRODUCTION

The Audit and Compliance Committee of PROMOTORA DE INFORMACIONES, S.A. (hereinafter PRISA and, where applicable, GRUPO PRISA) is issuing this report to enable the Board of Directors to present information concerning the Committee's operations and activities during the 2004 financial year at the General Shareholders' Meeting.

The Audit and Compliance Committee is one of the committees set up by PRISA's Board of Directors, and it has been in operation since 2001. The Committee has progressively adapted its operations and composition to the rules and codes which have since then been published with a view to achieving maximum efficiency and transparency for PRISA's listed companies.

PRISA'S Audit and Compliance Committee is governed by the Eighteenth Additional Provision of the Securities Market Law as restated in Law 62/2003, of December 30, by Article 21bis of the Company Bylaws and by the Regulations of the Board of Directors of PRISA, passed on June 21, 2001, as amended on July 17, 2003 and March 18, 2004.

II.- FUNCTIONS AND POWERS

Pursuant to the provisions of the Board of Directors Regulations, the main function of the Audit and Compliance Committee is to support the Board of Directors in its supervisory and management tasks.

The Audit and Compliance Committee has the following basic responsibilities:

- a. To inform the shareholders present at the Shareholders' Meeting with regard to issues that they may raise concerning the Committee's powers, as provided by the Law and in the Shareholders' Meeting Regulations.
- b. To propose to the Board of Directors, to be submitted at the Shareholders' Meeting, the appointment of external account auditors, as set forth in Article 204 of the consolidated text of the Corporations Law.
- c. To supervise external auditing services.

- d. To monitor the Company's financial information processes and internal control systems.
- e. To maintain contact with the external auditors in order to receive information concerning issues that could jeopardize their independence or other information related to the progress of the account auditing process, as well as other communications provided for in legislation governing audits and technical auditing practices.

In addition, and without prejudice to other tasks that may be assigned it by the Board of Directors, the Audit and Compliance Committee has the following powers:

- a) To inform and propose to the Board of Directors the contract terms, the scope of appointment and, when applicable, the revocation or non-renewal of external auditors, as well as to supervise compliance with the terms of the audit contract;
- b) To review Company accounts and ensure compliance with legal requisites and the correct application of generally-accepted accounting practices, as well as to provide information concerning any proposed modification of accounting principles and criteria that management may propose;
- c) To review issue prospectuses and information concerning the quarter and half-year financial statements that the Board is required to furnish the securities markets and their supervisory boards;
- d) To verify compliance with the Internal Code of Conduct with respect to securities markets, the Board Regulations and, in general, all rules governing the Company, and to propose changes for their improvement. In particular, the Audit and Compliance Committee shall receive information and, when warranted, issue to the senior company management reports concerning disciplinary measures;
- e) To analyze and report on specific significant investment transactions when requested by the Board to do so;
- f) To exercise any other powers attributed to the Committee in the Board Regulations.

III.- COMPOSITION

At present the members of the Audit and Compliance Committee include:

Chairman: Mr. José Buenaventura Terceiro Lomba.- Independent External Director.

Members: Mr. Matías Cortés Domínguez.- Independent External Director
Mr. Borja Jesús Pérez Arauna.-. External Director Representing a Significant Shareholding
Mr. Juan Salvat Dalmau.- Independent External Director.
Mr. Adolfo Valero Cascante.- External Director Representing a Significant Shareholding.

Secretary: Mr. Miguel Satrústegui Gil-Delgado, Non-Member Secretary of the Board of Directors.

IV.- MEETINGS

Pursuant to the Board of Directors Regulations, *"the Audit and Compliance Committee shall meet periodically as required and at least four (4) times a year"*.

The meetings held and issues resolved during 2004 were the following:

Meeting of February 26, 2004

Financial information for the second semester of 2003 was reviewed, to be submitted to the markets.

The professional fees for the 2003 external audit were discussed. The decision was taken to renew the appointment of Deloitte & Touche España, S.L., auditors of the company and consolidated group accounts, for a period of 1 year, to audit the financial statements for the 2004 financial year.

The external auditors presented their report on the 2003 external audit and other non-auditing services provided to Grupo Prisa companies during that term.

The committee voted to approve the report evaluating compliance with the company's good governance rules and procedures, which describes the functions and activities of the Audit and Compliance Committee during the 2003 financial year.

Meeting of March 9, 2004

The following projects to be submitted to the Board of Directors for its consideration, were reviewed and approved: i) Proposed Regulations to govern shareholders' meetings ii) Proposals to modify Articles 1, 12, 15, 17, 21bis, 26 and 39 of the Company Bylaws and iii) Proposals to partially reform the Board of Directors Regulations.

Meeting of April 14, 2004

Review of the financial information for the First Quarter 2004, to be submitted to the markets.

Discussion of a letter from the Director of Primary Markets of the National Stock Exchange Commission requesting clarification concerning certain differences between the 2003 annual accounts and periodic public information for the second semester of 2003. Also discussed was the content of the response to be given by the Director of Finance and Administration to the Commission's request, explaining that the differences were merely formal, being the result of the reclassification of debit and credit balances, which do not affect company assets.

Meeting on May 20, 2004

The Director of Finance and Administration and the Internal Audit Director presented a report to the Committee on "Analysis and Evaluation of Risks," carried out according to the practices generally accepted in the market in matters of risk prevention, which identifies different types of risks and Grupo Prisa's organization in risk management.

An overall "map" of risks affecting the Group and its business units was presented, analyzing different types of risks and underscoring that this is an initial version of the report.

The centralized purchasing process that the Group has established was also analyzed.

Meeting of July 15, 2004

Review of the financial information for the first semester of the 2004 financial year, to be submitted to the markets.

The Internal Audit Director presented a report on *El País*, which provides an overall perspective of risks in that business unit.

Meeting of October 21, 2004

Review of financial information for the Third Quarter of the 2004 financial year, to be submitted to the markets.

The Internal Audit Director presented a report on Sogecable, which analyzes different types of risks and provides an overall perspective of risks with regard to that company.

The Director of Finance and Administration and the Internal Audit Director presented to the Committee a report concerning the treatment of certain areas of accounting under the Spanish General Accounting Plan and when applying International Accounting Standards.

V.- RELATIONS WITH THE EXTERNAL AUDITORS

The Audit and Compliance Committee proposed that the Board of Directors extend the appointment of DELOITTE & TOUCHE ESPAÑA, S.L. as auditors of the accounts of the Company and its Consolidated Group for the term of one year. Based on the Board of Directors' proposal, the shareholders present at the General Shareholders' Meeting of PRISA on April 15, 2004 passed a resolution to appoint that firm to audit the financial statements corresponding to the 2004 financial year.

Concerning the presence of the external auditor at the meetings of the Audit and Compliance Committee, it was stated for the record that Mr. Luis Jiménez Guerrero, partner of DELOITTE & TOUCHE ESPAÑA, S.L., who is the person in charge of the external audit of the Company and its Consolidate Group, attended the meeting held on February 26, 2004 in which he reported on the most relevant aspects of the work undertaken by the external auditors.

The fees for account auditing services provided to the different companies comprising GRUPO PRISA and its affiliates by DELOITTE & TOUCHE ESPAÑA, S.L. and its affiliates

during the 2004 financial year amounted to 1,144 thousand Euros, of which 62 thousand Euros were for services provided to PRISA. Likewise, the fees paid to other auditors who participated in the audits conducted in different companies within the Group amounted to 184 thousand Euros.

In other respects, fees for other professional services provided to different companies within the Group by the principal auditors and their affiliates during the 2004 financial year amounted to 437 thousand Euros, of which 102 thousand Euros were for services provided to PRISA, while those provided by other auditors participating in the audit of the Group's companies for professional services amounted to 26 thousand Euros.

The foregoing information concerning professional fees shall be included in PRISA's individual annual report and in the consolidated annual report of GRUPO PRISA for the 2004 financial year.

VI.- INTERNAL AUDIT

The principal objective of the Internal Audit Department is to provide GRUPO PRISA management and the Audit and Compliance Committee with the reasonable assurance that the environment and systems of internal control in place in the Group companies have been correctly designed and managed.

To achieve that objective, the Department carries out the functions it has been assigned, which include:

- (i) Evaluating the appropriateness of internal control systems with a view to ensuring greater effectiveness in processes for controlling and managing the risks inherent in the activities in which the Group is engaged.
- (ii) Reviewing operations with a view to verifying whether the results achieved meet the established objectives and goals, and whether operations and programs are being implemented or carried out as they were planned.
- (iii) Providing independent opinions and observations with respect to the interpretation and application of current legislation in the area of accounting.
- (iv) Evaluating the efficiency with which Group resources are used.
- (v) Reviewing the means for safeguarding assets and verifying their existence.
- (vi) Reviewing the feasibility and integrity of the Group companies' operational and financial information, and the means used to identify, evaluate, classify and disseminate that information.

The Internal Audit Director designs a proposed Annual Internal Auditing Activities Plan based on the evaluation of risks inherent in the activities carried out by the Group's business units, in order to determine the priorities with respect to internal auditing activities that are consistent with the goals defined by the Organization.

The Annual Internal Auditing Activities Plan reflects all of the activities that the Internal Auditors plan to carry out during the financial year. The plan specifically sets forth the

activities and projects to be undertaken, the nature of the tasks involved, and the resources available to the Internal Audit Department.

The Internal Audit Director submits the proposed Annual Internal Auditing Activities Plan to the Audit and Compliance Committee for its approval.

The most significant projects carried out by the Internal Audit Department during the 2004 financial year include:

- (ii) Reviewing the degree of compliance with the accounting valuation and recording rules established by GRUPO PRISA, and evaluating the level of appropriateness and effectiveness of the internal control environment in place in units of the Santillana Group in Argentina, Chile, the US, Dominican Republic, Uruguay and Venezuela.
- (iii) Analyzing the existing systems, policies and procedures that support the process of preparing information reported to GRUPO PRISA by its companies in the International Media Unit located in Spain, the US, Chile, Costa Rica and Panama.
- (iv) Evaluating the appropriateness and effectiveness of the control environment in place in companies comprising GRUPO PRISA's Regional Press Unit.
- (v) Participating in due diligences conducted during the 2004 financial year.
- (vi) Intervening in the project to convert to International Accounting Standards undertaken by GRUPO PRISA during 2003 and 2004, whose objective has been to evaluate the differences existing between the accounting rules of valuation and classification applied by the Group and the International Accounting Standards, and quantifying the impact of the first application of international standards to the Group's financial statements.

The Director of the Internal Audit Department attended all of the Audit and Compliance Committee's meetings in 2004, specifically informing the Committee about the activities of the Department and the progress of the activities carried out in the Annual Internal Auditing Activities Plan.

VII.- INTERNATIONAL ACCOUNTING STANDARDS (IAC)

Pursuant to the provisions of European Regulation 1606/2002 of July 19 concerning the application of International Accounting Standards, enterprise groups established in European Union member states that issue variable-interest securities listed on regulated markets must present their consolidated financial statements in accordance with International Accounting Standards for the financial years commencing from January 1, 2005.

GRUPO PRISA has put special effort into preparing for the conversion to International Accounting Standards and their application within the Group. During the 2004 financial year a project to convert to IAS has been developed with the help of KPMG Auditores, S.L., with a view to ensuring compliance with the new standards for the 2005 annual accounts and comparative accounts.

The conclusions reached after finishing this project indicate that the implementation of the international standards will not require significant modifications in the GRUPO PRISA accounts. The principal differences detected have been corrected within the

framework of an accounting criteria integration and harmonization process, culminating in the publication of a Manual of Accounting Policies, which is mandatory for all GRUPO PRISA companies. Thus, commencing on January 1, 2005 GRUPO PRISA prepares and submits all of its consolidated financial statements in accordance with International Accounting Standards.

The Directors of the conversion project have kept the Audit and Compliance Committee promptly informed of its progress throughout the implementation process.

VIII.- COMPLIANCE WITH RULES OF CORPORATE GOVERNANCE

Pursuant to Article 24.5 of the Board of Directors Regulations that attribute to this Committee the obligation to evaluate at one of its annual meetings the degree of efficiency and compliance with the Company's rules and procedures of good governance, the Committee verified that in general the Company has complied with the rules and procedures of corporate governance provided for by law and in the Company's Bylaws and Regulations.

Specifically, the Committee underscored the following aspects and actions in that regard that were carried out by the company during the 2004 financial year and January, 2005:

Communication of Information

The measures adopted by the company to disseminate information about the company more efficiently include:

i) In compliance with applicable laws with regard to the securities markets and the Company's Internal Code of Conduct, the Company promptly sends to the National Stock Exchange Commission all relevant company information. These communications are available on both the webpage of the Commission and the Company's corporate webpage.

During the 2004 financial year and pursuant to the legislation in force, on the following dates the Company sent the required periodic public information:

- o 27 Feb 04: Information concerning the results of the 2003 financial year.
- o 15 Apr 05: Information concerning the results of the First Quarter of the 2004 financial year.
- o 22 Jul 04: Information concerning the results of the first semester of the 2004 financial year.
- o 22 Oct 04: Information concerning the results of the Third Quarter of the 2004 financial year (results for the first nine months of the 2004 financial year).

In all, the company sent 35 communications concerning relevant information to the National Stock Exchange Commission during the 2004 financial year.

ii) The company's corporate webpage has likewise been restructured (www.prisa.es) in order to adapt it to the provisions of Law 26/2003, Order ECO/3722/2003 of December 26, and Circular 1/2004 of March 17 of the National Stock Exchange Commission concerning the Annual Report on the Corporate Governance of Listed Companies and other entities issuing securities quoted on official secondary markets and other information sources of listed companies. The task of renovating the webpage is still underway.

iii) As proposed by the Remuneration and Appointments Committee, at its meeting on March 18, 2004 the Board of Directors approved the Report on Corporate Governance for the 2003 financial year, which was made available to shareholders and the public at large.

The Report was prepared according to the provisions of Article 116 of Law 24/1988 of July 28 on the Securities Market (as restated in Law 26/2003 of July 17), as well as Order Eco/3722/2003.

iv) At its meeting held on March 18, 2004, the Board of Directors approved reports concerning Item Five (amendment of certain articles of the Company Bylaws) and Item Seven (compensation plan consisting of granting stock options to executive directors and corporate officers of the company, authorizing and delegating such matters to the Board of Directors, including powers to approve capital increases pursuant to Article 153.1.b) of the Corporations Law and to exclude preemptive rights) of the Agenda of the General Shareholders' Meeting held on April 15, 2004. Those reports were promptly made available to the shareholders, pursuant to current legislation.

v) In compliance with Article 36 of the Board of Directors Regulations, mechanisms have been set up to provide regular non-privileged information to the company's institutional investors, by remitting to the National Securities Exchange Commission reports and presentations on the company, and by publicizing information of interest to those investors on the corporate webpage.

Operations of the Board of Directors

During the financial year the Board of Directors met monthly, with the exception of the month of August.

Notices of board meetings, providing information to directors and, in general, all operations of the Board have been conducted in accordance with the provisions of the Board Regulations.

The Board of Directors dealt with various matters falling within its powers, and specifically those set forth in paragraphs b), c), d), f) and h) of Article 5 of the Board Regulations.

Preceded by the corresponding report from the Remuneration and Appointments Committee dated March 18, 2004, at the proposal of the Board of Directors the resolution to reelect the Directors Messrs. Jesús de Polanco Gutierrez, Juan Luis Cebrián Echarri, Ricardo Diez Hochleitner, Gregorio Marañón Bertrán de Lis, Emiliano Martínez Rodríguez, Francisco Pérez González, Matías Cortés Domínguez, Alvaro

Noguera Gimenez, Adolfo Valero Cascante and Manuel Varela Uña was passed at the General Shareholders' Meeting held on April 15, 2004.

Operations of the Board of Directors' Committees

The two committees of the Board of Directors (the Audit and Compliance Committee and the Remuneration and Appointments Committee) acted within the confines of the provisions set forth in the company's bylaws and regulations with respect to their composition, powers and operations.

Regarding the composition of these committees:

i) Three of the members of the Audit and Compliance Committee are independent directors (including its chairman) and two of its members represent significant shareholdings. None of the members of this committee is an executive director, in compliance with the Eighteenth Additional Provision of the Securities Market Law as restated in Law 62/2003 of December 30, which provides that at least a majority of the members of the Audit Committee shall be non-executive directors.

The committee likewise complies with the provision set forth in the aforementioned Eighteenth Additional Provision of the Securities Market Law requiring the members of the Committee and, in any case its Chairman, "shall not have any other contractual relationship with the Company other than the position for which they are appointed."

ii) Three of the four members of the Remuneration and Appointments Committee are external directors representing significant shareholders and one of the members (the Chairman) is an independent external director, in compliance with Article 25.a of the Board of Directors Regulations.

Concerning their powers and operations:

i) During the past financial year the Audit and Compliance Committee has fulfilled the responsibilities attributed to it in both Article 21bis of the Company Bylaws and Article 24 of the Board of Directors Regulations, as indicated in sections IV, V, VI, VII and VIII of this Report.

ii) Among the responsibilities carried out by the Remuneration and Appointments Committee during the past financial year are those set forth in paragraphs 1, 2, 3, 4, 5 and 7 of paragraph b), Article 25, of the Board of Directors Regulations.

Conflicts of Interest

Given the potential conflict of interest of board member Mr. Gregorio Marañón, with respect to his relations with Universal Music, at its meeting on February 19, 2004 and after having received a favorable report from the Remuneration and Appointments Committee, the Board of Directors granted the specific authorization provided for in Article 31 of the Board Regulations, to negotiate a possible strategic cooperation agreement with that firm.

The director in question left the meeting during the deliberations of the Board and the Remuneration and Appointments Committee with regard to that transaction.

Transactions with Significant Shareholders

During the 2004 financial year the company did not participate in any transactions with significant shareholders.

Code of Conduct in Matters Related to the Securities Markets

In compliance with the “Internal Code of Conduct Concerning Matters Related to the Securities Markets”, during the 2004 financial year the following measures were taken:

i) The General Secretary of Grupo Prisa has created and maintained an updated list of those persons subject to the Internal Code of Conduct.

All persons included in the aforementioned list have likewise been informed of the Internal Code of Conduct and all have expressly agreed to comply with its provisions.

ii) The Department of Finance and Administration has received communications from those persons who, being subject to the Internal Code of Conduct, have carried out transactions involving the purchase or sale of Prisa stock.

Likewise, and in compliance with Article 3.4 of the Internal Code of Conduct, the Department of Finance and Administration has asked the persons subject to the Internal Code of Conduct for confirmation of their balances of Prisa stock at December 31, 2004.

iii) As indicated above in this Report, all Relevant Information was promptly remitted to the National Stock Exchange Commission. All communications in that regard are available on the Commission website and on the corporate website of this company.

iv) The General Secretary of Grupo Prisa has maintained a Central Register of Privileged Information from which, and with regard to the legal and financial operations that may have had a significant influence on the quotation of the company's securities, he has prepared a list of all persons with access to Privileged Information.

Amendments to the Company's Internal Regulations:

- At its meeting held on March 18, 2004 and after having received a report in that regard from the Audit and Compliance Committee, the Board of Directors made a series of amendments to the Board of Directors Regulations. Among others, Article 24 (concerning the Audit and Compliance Committee) was amended to adapt it to the Eighteenth Additional Provision of the Securities Market Law as restated in Law 62/2003 of December 30.

Once those Regulations were amended, and in compliance with the provisions of Article 115 of Law 24/1988 of July 28 on the Securities Market (as restated in Law 26/2003 of July 17) the participants at the General Shareholders' Meeting of April 15, 2004 were informed of the basic aspects of the Board of Directors Regulations, whose restated

text has been remitted to the National Stock Exchange Commission and recorded on the Companies Register.

- In compliance with the provisions of Article 113 of Law 24/1988 of July 28 on the Securities Market (as restated in Law 26/2003 of July 17), specific regulations for General Shareholders' Meetings were approved at the Shareholders' Meeting held on April 15, 2004, which were then remitted to the National Stock Market Commission and recorded on the Companies Register.

- The participants at the Shareholders' Meeting held on April 15, 2004 resolved to amend Articles 1, 12, 15, 17, 21bis, 26 and 39 of the Company Bylaws as follows: i) so that the generic remission to law is understood to include not only the Corporations Law of December 22, 1989, but also the Securities Market Law of July 28, 1988, as applicable in each case, ii) to add to the powers of the Shareholders' Meeting the power to approve and reform the Shareholders' Meeting Regulations, iii) to regulate in compliance with legal mandates (Articles 105 and 106 de la Corporations Law as restated in Law 26/2003 of July 17) the possibility that shareholders may exercise or delegate their votes at the Shareholders' Meetings by mail or by electronic means, iv) to replace the title "*Nature, Number of Members and Posts*" (of the Board of Directors) with "*Functions, Composition and Organization*", considering that this title more accurately reflects the content of Article 17 and in order to mention the Board of Directors Regulations in the Company Bylaws, and v) to adapt the regulation of the Audit and Compliance Committee to the terms of the Eighteenth Additional Provision of the Securities Market Law as restated in Law 62/2003 of December 30 (specifically to make a general remission to the functions of that Committee set forth by law or attributed to it by the Board of Directors, instead of enumerating each of them, as the requisites to be fulfilled by each committee member, and to likewise make a generic remission to law).

Madrid, January 19, 2005