

## ANNUAL ACTIVITIES REPORT OF THE AUDIT AND CONTROL COMMITTEE OF EUSKALTEL, S.A. FOR FINANCIAL YEAR 2015

### 1. Introduction

The Audit and Control Committee of Euskaltel, S.A. is an internal informational and consultative body without executive duties, the purview of which includes information, advisory, and proposal-making powers, and the principal task of which is to assist, inform and make proposals to the Board of Directors on the matters from time to time assigned thereto.

The Audit and Control Committee, which is mandatory for listed companies since the entry into force of Law 31/2014 of 3 December amending the Companies Act for the Improvement of Corporate Governance, was permanently created by Euskaltel's Board of Directors on 19 March 2013.

This Annual Activities Report of the Audit and Control Committee of Euskaltel for financial year 2015 has been prepared to be made available to the Company's shareholders, following approval by the Board of Directors, upon the occasion of the call to the Ordinary General Shareholders' Meeting.

### 2. Regulatory framework

The rules applicable to the Audit and Control Committee are currently contained in Section 529 *quaterdecies* of the consolidated text of the Companies Act approved by Royal Legislative Decree 1/2010 of 2 July, articles 63 and 64 of the Bylaws, articles 18, 37 and 43 of the Regulations of the Board of Directors, and in the Regulations of the Audit and Control Committee.

### 3. Principal duties and powers

The Audit and Control Committee primarily performs the following duties with respect to the Company itself as well as the subsidiaries of the Group:

- a) Report to the shareholders at the General Shareholders' Meeting on the issues raised by the shareholders that are within their purview.
- b) Monitor the effectiveness of the internal control of the Company and of its Group as well as the systems for managing risks, including tax risks.
- c) Together with the external auditors, analyse possible significant weaknesses in the internal control system detected during the audit.
- d) Supervise the process of preparing and presenting regulated financial information.
- e) Propose to the Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment, re-election or replacement of the external auditor in accordance with applicable legal provisions, as well as the terms of engagement thereof, and regularly collect information therefrom on the audit plan and

the implementation thereof, in addition to preserving its independence in the performance of its duties.

- f) Supervise the internal audit activity of the Company.
- g) Establish appropriate relations with the external auditors to receive information on those issues that might risk the independence thereof, for examination by the Committee, and any others related to the audit process, as well as such other communications as are provided for in the laws on auditing and in auditing rules.
- h) On an annual basis, and prior to the issuance of the audit report, issue a report expressing an opinion on the independence of the external auditors and summarise the activities of the Committee. This report must in all cases make a pronouncement regarding the provision of the additional services referred to in the preceding section, considered individually and as a whole, other than the legal audit, and in relation to the rules on independence or the legal provisions governing auditing.
- i) Provide an advance report to the Board of Directors on all of the matters provided by law, the Bylaws and the Regulations of the Board of Directors, and particularly regarding (i) the financial information that the Company must periodically publish; (ii) the creation or acquisition of interests in special purpose entities or entities domiciled in territories or countries considered to be tax havens; (iii) related-party transactions; and (iv) the financial terms and accounting impact of structural and corporate changes that the Company plans to carry out, and especially the exchange ratio for the proposed transaction.

The Audit and Control Committee shall also perform the following specific duties:

#### **With respect to information and internal control systems**

- Supervise the process of preparing regulated financial information relating to the Company and any group and the integrity thereof, reviewing compliance with regulatory requirements, the proper determination of the scope of consolidation, and the correct application of accounting standards.
- - Analysing the annual accounts following the close of each financial year, examining the draft opinion of the external auditors, discussing with them the content of the annual accounts and the audit report, and submitting recommendations to the Board of Directors regarding the formulation of the annual accounts.
- Periodically review the internal control and risk management systems, such that the principal risks are properly identified, managed and reported.
- Endeavour to ensure the independence and efficacy of the internal audit function; propose the selection, appointment, re-election and termination of the head of the internal audit department; propose the department's budget; receive periodic reports on its activities; and verify that senior management take account of the conclusions and recommendations of its reports.
- Establish and supervise a mechanism allowing employees to report confidentially, and anonymously if deemed appropriate, potentially significant irregularities that they become aware of at the Company, especially those of a financial and accounting nature.

#### **With respect to the external auditor**

- Submit to the Board proposals for selection, appointment re-election and replacement of the external auditor, as well as of the terms of engagement thereof.
- Endeavour to ensure that the remuneration of the external auditor for its work does not compromise the quality or independence thereof.
- Ensure that the external auditor holds an annual meeting with the full Board of Directors to report thereto on the work performed and any changes in the accounting and risk situation of the Company.
- Regularly receive from the external auditor information regarding the audit plan and the results of the implementation thereof, and verify that senior management takes into account the recommendations thereof.
- Ensure the independence of the external auditor and, to that end, (i) that the Company disclose a change of auditor to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) as a significant event and accompany therewith a declaration regarding any disagreements with the outgoing auditor and, if any, regarding the content thereof; (ii) that the Company and the auditor comply with applicable legal provisions regarding the provision of non-audit services, and (iii) in the event of the external auditors' resignation, that it examines the circumstances giving rise thereto.
- Encourage the assumption by the auditor of the consolidated group to take responsibility for auditing the companies of the group.

#### **With respect to the risk policy and risk management**

- Identify the various types of risk (operational, technological, financial, legal, reputational) facing the Company, including (among financial or economic risks) contingent liabilities and other off-balance sheet risks.
- Identify the risk level determinations that the Company deems acceptable.
- Identify the measures contemplated to mitigate the impact of identified risks in the event that they materialise.
- The information and internal control systems that will be used to monitor and manage the aforementioned risks, including contingent liabilities and other off-balance sheet risks.

#### **With respect to obligations specific to listed companies**

The Audit and Control Committee has the specific duty of reporting to the Board of Directors prior to the latter making the corresponding decisions, on:

- a) The financial information that the Company must periodically make public due to its status as listed company. The Audit Committee must ensure that the half-yearly financial reports and the interim management statements are drawn up using the same accounting standards as that annual accounts and, to that end, consider the

appropriateness of a limited review of the half-yearly financial reports by the external auditor.

- b) The creation or acquisition of equity interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, might diminish the transparency of the group.
- c) Related-party transactions as defined by the law from time to time in effect.
- d) The financial terms and accounting impact of structural and corporate changes that the Company plans to carry out, and especially the exchange ratio for the proposed transaction.

**With respect to the Company's corporate governance obligations.**

- Conduct a periodic review of the Company's internal corporate governance rules, and propose to the Board of Directors, for the approval thereof or for submission to the shareholders at a General Shareholders' Meeting, such amendments and updates as may contribute to the development and ongoing improvement thereof.
- Promote the Company's corporate governance strategy. Supervise compliance with legal requirements and with the internal rules of conduct and internal corporate governance rules of the Company.
- Periodically evaluate the suitability of the Company's corporate governance system, so that it may fulfil its mission of promoting the Company's interest and take account, as appropriate, of the legitimate interests of other stakeholders.
- Know, promote, guide and supervise the Company's actions on corporate social responsibility and sustainability matters, endeavouring to ensure that they are focused on the creation of value, and report thereon to the Board of Directors or to the Executive Committee, if any.
- Monitor the corporate social responsibility strategy and policies and evaluate the level of compliance therewith.
- Know, promote, guide and supervise the Company's actions on corporate social responsibility and report thereon to the Board of Directors or to the Executive Committee, if any.
- Supervise the strategy for communications and relations with shareholders and investors, including small and medium shareholders
- Supervise and evaluate the stakeholder relations processes.
- Evaluate all matters relating to the non-financial risks of the company, including operational, technological, legal, social, environmental, political and reputational risks.
- Coordinate the process of reporting non-financial and diversity-related information in accordance with applicable legal provisions and international benchmarks.

- Report on the Company's Annual Corporate Governance Report prior to the approval thereof, obtaining for such purpose the reports of the Appointments and Remuneration Committee with respect to the sections of such report that are within its purview.

#### 4. Composition of the Committee

The Audit and Control Committee shall be made up of a minimum of three and a maximum of five external (i.e. proprietary and independent) Directors appointed by the Company's Board of Directors, a majority of whom must be independent Directors.

The standard for selecting the members of Euskaltel's Audit and Control Committee, and particularly regarding the selection of the Chair thereof, take account of their knowledge and experience in accounting, auditing or risk management.

As of 31 December 2015, the Audit and Control Committee is composed of four external (independent and proprietary) Directors:

Name	Committee position	Class	Date of first appointment	Date of most recent appointment
Mr Iñaki Alzaga Etxeita	Chair	Independent	06/05/2015	06/05/2015
Ms Alicia Vivanco González	Member	Proprietary	19/03/2013	19/03/2013
Mr Richard David Alden	Member	Independent	19/03/2013	19/03/2013
Ms Bridget Cosgrave	Member	Independent	19/03/2013	19/03/2013

Mr Iñaki Alzaga Etxeita has held the position of Chairman of the Audit and Control Committee since 1 June 2015, when he replaced Ms Alicia Vivanco González, who voluntarily resigned from the post, in order to conform the composition of the Committee to good corporate governance best practices, which recommend, among other things, that the Chairmanship of the consultative Committees of the Board of Directors be held by independent external directors.

Ms Alicia Vivanco González continues to be a member of the Audit and Control Committee.

The Secretary of the Board of Directors, Mr Francisco Javier Allende Arias, acts as Secretary of the Appointments and Remuneration Committee.

#### 5. Meetings held, reports reviewed and appearances

The Audit and Control Committee meets four times per year in order to review the periodic financial information to be submitted to the authorities and the information to be approved by the Board of Directors.

It will also meet whenever called by its Chair, who must do so whenever the Board of Directors or the Chair thereof requests the issuance of a report or the adoption of proposals and, in any case, whenever requested by one third of the members of the Committee itself.

The Chair of the Audit and Control Committee may also call a meeting when appropriate for the proper performance of its duties..

The Audit and Control Committee has formally met on five occasions during financial year 2015, in addition to working sessions and specific meetings on particular topics.

All meetings were held at the registered office of Euskaltel, S.A. located at Parque Tecnológico, edificio 809, in Derio (Biscay).

The level of attendance at the meetings was as follows:

Number of meetings	5	
Possible attendees at each meeting	4	
Possible attendees	20	100.0%
Attendance in person	18	90.0%
Proxies given to the Chair	2	10.0%
Other proxies	-	0.0%
Non-proxy attendance	-	0.0%

The chair of the Committee attended all meetings.

The dates of the meetings, the type of information used, and the guests in attendance at the meetings who were not members of the Board of Directors are listed below:

Date	Primary documentation analysed	Additional guests in attendance
03/03/2015	<ul style="list-style-type: none"> <li>Draft of the Company's annual accounts for financial year 2014 for proposed formulation based on the General Chart of Accounts (<i>Plan General de Contabilidad</i>),</li> <li>Presentation of conclusions from the Audit of Accounts</li> <li>Drafts of audit reports,</li> <li>Reports of the Corporate Defence Committee,</li> <li>Renewal of the Code of Ethics and Conduct,</li> <li>Launch of the 2015 Internal Audit Plan,</li> <li>Information on short-term financing facilities.</li> </ul>	<ul style="list-style-type: none"> <li>Managing Director of the Company.</li> <li>Chief Financial Officer of the Company.</li> <li>Internal Audit Director of the Company.</li> <li>External Auditors of the Company.</li> </ul>
01/06/2015	<ul style="list-style-type: none"> <li>Draft of the Company's annual accounts for proposed reformulation based on IFRS,</li> <li>Interim Financial Statements as of 31 March 2015 based on IFRS,</li> <li>Draft restatement of the Company's Annual Accounts for financial years 2012-2014 based on IFRS.</li> </ul>	<ul style="list-style-type: none"> <li>Managing Director of the Company.</li> <li>Chief Financial Officer of the Company.</li> <li>Internal Audit Director of the Company.</li> </ul>
30/09/2015	<ul style="list-style-type: none"> <li>Report on acquisition of R Cable y Telecomunicaciones Galicia, S.A., and Study regarding related financing transaction.</li> <li>Description of certain related-party transactions.</li> </ul>	<ul style="list-style-type: none"> <li>Managing Director of the Company.</li> <li>Company consultants.</li> </ul>
28/10/2015	<ul style="list-style-type: none"> <li>Reports of the Corporate Defence Committee,</li> <li>Report on the progress of the 2015 Internal Audit</li> </ul>	<ul style="list-style-type: none"> <li>Managing Director of the Company.</li> <li>Chief Financial Officer of the Company.</li> </ul>

	<p>Plan,</p> <ul style="list-style-type: none"> <li>Proposed update of the 2015 Internal Audit Plan due to change in risk assessment derived from the IPO,</li> <li>Proposed corporate risk map,</li> <li>Recording of Internal Control Recommendations for follow-up.</li> </ul>	<ul style="list-style-type: none"> <li>Internal Audit Director of the Company.</li> </ul>
16/12/2015	<ul style="list-style-type: none"> <li>External audit plan for financial year 2015, updated with inclusion of IPO and R Cable acquisition,</li> <li>Reports of the Corporate Defence Committee,</li> <li>External report on certification of the crime prevention Management System implemented at the Company,</li> <li>Report on significant holdings in the Company's share capital,</li> <li>Report on the progress of the 2015 Internal Audit Plan,</li> <li>Proposed draft of the 2016 Internal Audit Plan,</li> <li>Recording of Internal Control Recommendations for follow-up.</li> </ul>	<ul style="list-style-type: none"> <li>Managing Director of the Company.</li> <li>Chief Financial Officer of the Company.</li> <li>Internal Audit Director of the Company.</li> <li>External Auditors of the Company.</li> </ul>

The main activities of the Audit and Control Committee in financial year 2015 were:

Duties relating to	Main activities performed
Information and internal control systems	<ul style="list-style-type: none"> <li>There was a detailed analysis was made of all annual and interim economic/financial information issued by the Company, particularly information related to the IPO process.</li> <li>There was a discussion of the draft audit reports on the annual accounts and others reports issued by the Company's external auditors.</li> <li>There was follow-up on the internal control recommendations reported on by the Company's auditors, both for financial year 2014 and for those reported in financial year 2015.</li> <li>The Internal Audit Plans for financial years 2015 and 2016 were approved, and note was taken of the annual report on Internal Audit activities for financial year 2015.</li> <li>There was follow-up on the Internal Audit Plan for financial year 2015, with special attention to the degree of implementation by Senior Management of the recommendations of Internal Audit.</li> <li>There was follow-up on the management of the communication channel established for confidential communication by employees of any matters they deem appropriate with regard to the Code of Ethics and Financial Information.</li> </ul>
External auditor	<ul style="list-style-type: none"> <li>A proposal was brought before the Board to appoint the Company's Auditor to be the auditor of the consolidated group formed by Euskaltel and its subsidiaries.</li> <li>Various meetings were held with the external auditors, including meetings dealing with topics related to ensuring their independence, changes in accounting rules, and the results of their work, among other topics.</li> </ul>
Risk policy and risk management	<ul style="list-style-type: none"> <li>Note was taken of the Company's Corporate Risk Map, prepared with the help of an outside specialist in accordance with recognised standards.</li> <li>The risk factors mainly affecting the Company were identified and made public (by means of the IPO prospectus).</li> <li>A detailed analysis was set out of the Company's Risk Management system, incorporating the entire Consolidated Group.</li> </ul>

	<ul style="list-style-type: none"> <li>As to risks of Criminal Liability, there was follow-up on the progress of the Corporate Defence Committee (Compliance), which obtained outside certification of the crime prevention Management System and of the communication channel enabled for this purpose.</li> </ul>
Obligations specific to listed companies	<ul style="list-style-type: none"> <li>The Board of Directors was informed about all financial information published by the Company as a result of its status as a listed company, and which is found on the website.</li> <li>Report was made on the acquisition of R Cable y Telecomunicaciones Galicia, S.A.</li> <li>A report was made regarding all related-party transactions, in accordance with applicable law, whether entered into during the financial year or during previous financial years, through the corresponding report.</li> </ul>
Company's corporate governance obligations	<ul style="list-style-type: none"> <li>The Committee's chair was changed as a result of conforming the post to Good Governance recommendations.</li> <li>Amendment of the Code of Ethics and Conduct.</li> <li>The Corporate Governance model was reformed prior to the Company's IPO, by incorporating those amendments that better adapt it to best practices.</li> <li>There was a review of the Corporate Governance System's adaptation to the Good Governance Code of Listed Companies published by the National Securities Market Commission in February 2015</li> </ul>

In view of the various matters dealt with throughout financial year 2015, the Audit and Control Committee reported favourably to the Board of Directors on the following matters:

- Updating of the Company's Code of Ethics and Conduct.
- Restatement of the Annual Accounts and Management Report for Euskaltel, S.A. for financial year 2014.
- Preparation of the Interim Accounts as of March 31, 2015 in accordance with the General Chart of Accounts and IFRS rules.
- Restatement of the Annual Accounts for financial years 2012, 2013 and 2014 based on IFRS rules.
- Approval of the Prospectus issued for the Company's IPO.
- Approval of the periodic public information.
- Acquisition of 100% of the company R Cable y Telecomunicaciones Galicia, S.A.
- Participation in a 1.4 billion euro financing transaction.
- Adaptation of the Company to the Corporate Governance requirements of the February 2015 Good Governance Code.
- Appointment of the auditor for the Euskaltel, S.A. consolidated group.