

Euskaltel, S.A. and subsidiaries

Consolidated Annual Accounts

2018

Consolidated Directors' Report

2018

(With Auditor's Report Thereon)

(Free translation from the original in Spanish. In the event of
discrepancy, the Spanish-language version prevails)



KPMG Auditores, S.L.
Torre Iberdrola
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Planta 17
48009 Bilbao

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Auditor's Report on the Consolidated Annual Accounts issued by an Independent Auditor

To the shareholders of Euskaltel, S.A.:

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of Euskaltel, S.A. (the Parent Company) and its subsidiaries (the Group), which comprise the consolidated balance sheet at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the notes thereto, for the year ended at that date.

In our opinion, the accompanying consolidated annual accounts present, in all material respects, a true and fair view of the consolidated equity and financial position of the Group at 31 December 2018, and of its consolidated financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with prevailing standards regulating the audit of accounts in Spain. Our responsibilities under these standards are further described in the *Auditor's Responsibility for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including independence requirements, that are applicable to our audit of the consolidated annual accounts in Spain, as required by standards regulating the audit of accounts in Spain. In this regard, we have not rendered services other than the audit of accounts and no situations or circumstances have arisen that have compromised the necessary independence, in accordance with the aforementioned regulatory standards.

We believe that the audit evidence we have obtained is sufficient and appropriate for providing a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Intangible Asset Measurement - Goodwill

See Notes 3.3, 5 and 6 to the annual accounts

Key audit matter	How the matter was dealt with in our audit
<p>The Group has recognised significant amounts of goodwill from the acquisitions of R Cable y Telecomunicaciones Galicia, S.A. and Parselaya, S.L. (merged with Telecable de Asturias S.A. as of 1 January 2018) which were carried out in 2015 and 2017, respectively. Irrespective of whether there is any indication of impairment, the applicable financial reporting regulatory framework requires that the Group identify the Cash Generating Units (CGUs) to which the goodwill should be assigned and verify the recoverable value thereof at least annually, in order to assess by comparison with the carrying value if it is necessary to record an impairment adjustment.</p> <p>The Group determines the recoverable amount of each Cash Generating Unit (CGU) based on its value in use and, therefore, its calculation is estimated by discounting future cash flows, which requires value judgements by the Directors when establishing certain key assumptions.</p> <p>Due to the high degree of uncertainty associated with the judgement used by the Directors and the significance of the carrying amount of the goodwill, this is one of the main areas of focus of our audit.</p>	<p>Our audit procedures have entailed assessing the design and implementation of the key controls relating to the registration process of goodwill measurement, and those established for preparing and controlling Group budgets, assessing the reasonableness of the budgets and their historical rate of attainment, by comparing actual data with the initial forecasts.</p> <p>We have also performed detailed tests including, inter alia, the following:</p> <ul style="list-style-type: none"> a) We have assessed whether the methodology used by the Group for the impairment analysis and, in particular, whether the application of value in use as the calculation method for the recoverable amount is appropriate in the specific circumstances of the corresponding CGU; b) We have tested that the cash flow estimates used to determine the value in use are consistent with the budget approved by the Directors for the period it covers; c) We have assessed the reasonableness of the key assumptions used in the value in use calculation, including the increase in sales, the discounting rate, the long-term growth rate, EBITDA/Revenue margin and CAPEX/Revenue ratio, calculated using the budgets approved by the Directors. During this procedure, we have used our appraisal experts to assess the suitability of the discounting rate and the long term growth rate used; and d) We have performed arithmetical verifications of the calculations made to determine the recoverable value and compared this with the carrying value of the corresponding CGU in order to determine whether it is necessary to record an impairment adjustment and, if applicable, to verify its proper recognition. <p>Lastly, we have assessed the suitability and sufficiency of the information reported in the Group's consolidated annual accounts regarding the value impairment verification, in accordance with the applicable financial reporting regulatory framework and, in particular, we have ensured that the information regarding the sensitivity analysis of recoverable value, in the event of reasonably possible changes in key assumptions included, has been carried out based on sufficiently ample changes in assumptions, rather than with minimal changes in such assumptions.</p>

Estimation of supplier volume discount - Supply costs

See Note 13.2 to the annual accounts

Key audit matter	How the matter was dealt with in our audit
<p>The supply cost of several Group companies is reduced by means of certain volume discounts, the application of which is subject to the fulfilment of a specific accumulated volume of consumption during the agreed period, which is usually more than one year.</p>	<p>Our audit procedures have comprised, inter alia:</p> <ul style="list-style-type: none"> a) assessing the design and implementation of the key controls relating to the supplies and discounts process,

Estimation of supplier volume discount - Supply costs

See Note 13.2 to the annual accounts

<i>Key audit matter</i>	<i>How the matter was dealt with in our audit</i>
<p>In these circumstances, the appropriate recognition of supply costs requires the Group to be able to reliably estimate the degree of fulfilment of the conditions giving discount entitlements, and this requires judgement on the part of the Directors.</p> <p>Due to the uncertainty associated with these estimates and the significant effect that these discounts have on the recognition of the supply costs for the year, this has been considered a key audit matter.</p>	<ul style="list-style-type: none"> b) reading and gaining an understanding of the volume discount agreements held with suppliers c) checking the consistency of the volume discount calculation based on the terms agreed in the contract, and d) assessing whether the forecast accumulated consumptions for the years for which a minimum volume requirement has been signed are fair and consistent with the budgets approved by the Directors. In this regard, we have reviewed the historical rate of attainment of these forecasts, comparing actual consumption volumes with the initial forecasts.

Revenue recognition

See Notes 3.13 and 13.1 to the annual accounts

<i>Key audit matter</i>	<i>How the matter was dealt with in our audit</i>
<p>Revenue recognition is considered a key audit matter given its significance in terms of the annual accounts as a whole, and because the registration and accounts closing process for revenue from the rendering of services is a highly automated process involving a large number of individual transactions.</p>	<p>Our main audit procedures included, inter alia, assessing the design and implementation, in collaboration with our IT specialists, of the controls in place in the Group companies regarding the process of recording revenue from the rendering of services.</p> <p>We have assessed the design and implementation and tested the effectiveness of the general controls for access to and modification of programs, as well as automatic controls carried out on invoicing systems and other back-up systems classified as critical for the purposes of our audit.</p> <p>We have also performed detailed tests including, inter alia, the following:</p> <ul style="list-style-type: none"> a) Reconciliation of data from the invoicing and collection systems with the accounting records. b) Review of corrected invoices and subsequent payments.

Other information: Consolidated directors' report

Other information exclusively comprises the 2018 consolidated directors' report, the preparation of which is the responsibility of the Directors of the Parent company and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated directors' report. Our responsibility regarding the information set forth in the consolidated directors' report is defined in the regulatory standards governing the auditing of annual accounts, which establishes two different levels of responsibility:

- a) A specific level which applies to the status of non-financial consolidated information, as well as certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of the Spanish Audit Act 22/2015. This is limited to verifying that the said information is furnished in the directors' report, or that reference is given, if applicable, to the separate report drawn up on the non-financial information in compliance with the prevailing standards, and otherwise to reporting on this.
- b) A general level applicable to the rest of the information included in the consolidated directors' report, which consists of assessing and reporting on the consistency of this information with the consolidated annual accounts, based on the knowledge of the Group obtained during the course of the annual account audit and excluding information other than that obtained as evidence during the course thereof, and also of assessing and reporting on whether the content and presentation of this part of the consolidated directors' report complies with the applicable standards. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

On the basis of the work undertaken, as described previously, we have verified that the information outlined in section a) above is furnished in the consolidated directors' report and that the rest of the information in the consolidated directors' report is consistent with the consolidated annual accounts for 2018 and the content and presentation complies with the standards applicable thereto.

Responsibility of the directors and the audit committee in relation to the consolidated annual accounts

The Directors of the Parent company are responsible for preparing the accompanying consolidated annual accounts in such a way as to present a true and fair view of the consolidated equity, consolidated financial position and consolidated results of the Group, in accordance with the IFRS-EU and other provisions of the financial reporting standards applicable to the Group in Spain, and of the internal controls they deem necessary to enable the consolidated annual accounts to be prepared free from material misstatement due to fraud or error.



In preparing these consolidated annual accounts, the directors of the Parent company are responsible for assessing the Group's capacity to continue as a going concern, disclosing, where applicable, the matters relating to the business continuity and accounting on a going concern basis unless these directors intend to liquidate the Group or cease trading, or there is no realistic alternative but to do so.

The Parent company's audit committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material misstatement, due to fraud or error, and issue an audit report containing our opinion thereon.

Reasonable assurance is a high level of assurance but not a guarantee that an audit conducted in accordance with the standards regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with standards regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, we design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Parent company.



- We conclude on the appropriateness of the Parent company directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.
- We obtain evidence that is sufficient and appropriate in relation to the financial information on the entities or business activities within the group to provide a basis for our auditor's opinion on the consolidated annual accounts. We are responsible for managing, supervising and performing the Group audit. We are solely responsible for the auditor's opinion expressed.

We communicate with the Parent company's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

We also provide the Parent company's audit committee with a statement that we have complied with the applicable ethical requirements, including independence requirements, and communicate with the committee regarding any issues that could reasonably be considered to pose a threat to our independence and, if applicable, the relevant safeguards adopted.

From the matters communicated to the audit committee of the Parent company, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional report for the Parent company's audit committee

The opinion expressed herein is consistent with that stated in our additional report for the Parent company's audit committee dated 28 February 2019.



Contract term

The ordinary general shareholders' meeting held on 1 June 2018 appointed us as Group auditors for a 1-year term, from the year ended 31 December 2018.

Previously, we were appointed by resolution of the Extraordinary Meeting of Shareholders for a 3-year term and we have been continuously auditing their accounts since the year ended 31 December 2015.

KPMG Auditores, S.L.
On the Spanish Official Register of Auditors
("ROAC") with No. S0702

Cosme Carral López-Tapia
On the Spanish Official Register of Auditors
("ROAC") with No. 18,961

28 February 2019



**Consolidated Annual Accounts
and Directors' Report
for the year
ended 31 December 2018**

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

EUSKALTEL, S.A. AND SUBSIDIARIES

Consolidated Statements of Financial Position at 31 December 2018 and 2017

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(Expressed in thousands of Euros)

ASSETS	Notes	31.12.2018	31.12.2017
NON-CURRENT ASSETS		2,721,017	2,768,346
Goodwill	5 & 6	1,024,923	1,024,923
Intangible assets	6	310,789	318,985
Property, plant and equipment	7	1,252,447	1,286,312
Financial assets	8	7,773	7,524
Deferred tax assets	12	125,085	130,602
CURRENT ASSETS		177,671	136,222
Inventories	9	5,979	4,144
Trade and other receivables	8	51,132	54,154
Current tax assets	12	867	6,745
Other current assets		12,337	12,527
Cash and cash equivalents	8	107,356	58,652
TOTAL ASSETS		2,898,688	2,904,568
EQUITY AND LIABILITIES	Notes	31.12.2018	31.12.2017
EQUITY			
Capital and reserves	10	974,886	963,642
Capital		535,936	535,936
Share premium		355,165	355,165
Retained earnings		110,461	96,815
(Own shares)		(1,602)	(1,887)
Interim dividend paid during the year		(25,010)	(22,688)
Other comprehensive income		(64)	(64)
Equity attributable to equity holders of the Parent		974,886	963,277
Non-controlling interests		-	365
		974,886	963,642
NON-CURRENT LIABILITIES		1,562,189	1,694,422
Prepayments for non-current assets		2,330	500
Non-current payables	11	1,447,317	1,583,359
Derivatives	11	1,330	976
Other financial liabilities	11	24,150	15,171
Deferred tax liabilities	12	87,062	94,416
CURRENT LIABILITIES		361,613	246,504
Current payables	11	154,113	50,050
Trade and other payables	11	150,077	140,082
Current tax liabilities	12	1,128	7,470
Provisions		1,677	1,604
Other current liabilities	11	54,618	47,298
TOTAL EQUITY AND LIABILITIES		2,898,688	2,904,568

Derio, 27 February 2019

EUSKALTEL, S.A. AND SUBSIDIARIES

Consolidated Income Statements for the years ended 31 December 2018 and 2017

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(Expressed in thousands of Euros)

	Notes	2018	2017
Revenues	13.1	674,642	609,275
Work performed by the entity and capitalised	6 & 7	16,377	12,399
Supplies	13.2	(159,602)	(132,874)
Other operating income		616	524
Personnel expense	13.3	(45,847)	(42,452)
Other operating expenses	13.4	(170,451)	(166,899)
Amortisation and depreciation	6 & 7	(185,854)	(164,749)
RESULTS FROM OPERATING ACTIVITIES		129,881	115,224
Finance income		918	228
Finance cost		(49,112)	(49,109)
NET FINANCE COST	13.5	(48,194)	(48,881)
PROFIT BEFORE INCOME TAX		81,687	66,343
Income tax	12	(18,901)	(16,781)
PROFIT FOR THE YEAR	10	62,786	49,562
Profit for the year attributable to equity holders of the Parent		62,821	49,621
Profit for the year attributable to non-controlling interests		(35)	(59)
		62,786	49,562
Earnings per share (Euros)		0.35	0.30

Derio, 27 February 2019

EUSKALTEL, S.A. SUBSIDIARIES

Consolidated Statements of Comprehensive Income for the years ended 31 December 2018 and 2017

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(Expressed in thousands of Euros)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
a) Consolidated profit/(loss) for the year	13	<u>62,786</u>	<u>49,562</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>62,786</u>	<u>49,562</u>
Attributable to equity holders of the Parent		62,821	49,621
Attributable to non-controlling interests		<u>(35)</u>	<u>(59)</u>
		<u>62,786</u>	<u>49,562</u>

Derio, 27 February 2019

EUSKALTEL, S.A. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity for the years ended 31 December 2018 and 2017

(Expressed in thousands of Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	Registered capital	Share premium	Retained earnings	Own shares	Other comprehensiv e income	Interim dividend	Subtotal	Non- controlling interests	Total
Balance at 1 January 2017	<u>455,536</u>	<u>207,604</u>	<u>102,735</u>	<u>(1,363)</u>	<u>(64)</u>	<u>(22,777)</u>	<u>741,671</u>	<u>423</u>	<u>742,094</u>
Other comprehensive income	-	-	49,621	-	-	-	49,621	(59)	49,562
Transactions with shareholders									
Capital increases	80,400	174,200	(481)	-	-	-	254,119	-	254,119
Business combinations (note 10)	-	(26,639)	-	-	-	-	(26,639)	-	(26,639)
Own shares	-	-	(455)	(524)	-	-	(979)	-	(979)
Dividends paid from 2016 profit	-	-	(54,605)	-	-	22,777	(31,828)	-	(31,828)
Dividends	-	-	-	-	-	(22,688)	(22,688)	-	(22,688)
Other movements	-	-	-	-	-	-	-	1	1
Balance at 31 December 2017	<u>535,936</u>	<u>355,165</u>	<u>96,815</u>	<u>(1,887)</u>	<u>(64)</u>	<u>(22,688)</u>	<u>963,277</u>	<u>365</u>	<u>963,642</u>
First-time application adjustments - IFRS 9 (note 2.3)	-	-	976	-	-	-	976	-	976
First-time application adjustments - IFRS 15 (note 2.3)	-	-	(607)	-	-	-	(607)	-	(607)
Adjusted balance at 1 January 2018	535,936	355,165	97,184	(1,887)	(64)	(22,688)	963,646	365	964,011
Other comprehensive income	-	-	62,821	-	-	-	62,821	(35)	62,786
Disposal of subsidiaries	-	-	-	-	-	-	-	(330)	(330)
Transactions with shareholders									
Own shares	-	-	(47)	285	-	-	238	-	238
Dividends paid from 2017 profit	-	-	(49,584)	-	-	22,688	(26,896)	-	(26,896)
Dividends	-	-	-	-	-	(25,010)	(25,010)	-	(25,010)
Other movements	-	-	87	-	-	-	87	-	87
Balance at 31 December 2018	<u>535,936</u>	<u>355,165</u>	<u>110,461</u>	<u>(1,602)</u>	<u>(64)</u>	<u>(25,010)</u>	<u>974,886</u>	<u>-</u>	<u>974,886</u>

Derio, 27 February 2019

EUSKALTEL, S.A. AND SUBSIDIARIES

Consolidated Statements of Cash Flows for the years ended 31 December 2018 and 2017

(Expressed in thousands of Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	Notes	2018	2017
Profit for the year before tax		81,687	66,343
Adjustments for		228,520	208,796
Amortisation and depreciation	6 & 7	185,854	164,749
Impairment allowances	8	4,373	3,695
Changes in provisions		73	(1,655)
Impairment and gains/(losses) on disposals of fixed assets	13.4	8,917	6,678
Impairment and gains/(losses) on disposals of financial instruments	13.5	(371)	392
Finance income	13.5	(231)	(228)
Finance cost	13.5	48,758	48,006
Exchange gains / (losses)	13.5	(316)	(265)
Change in fair value of financial instruments	13.5	354	976
Other income and expense	13.2	(18,891)	(13,552)
Changes in operating assets and liabilities		22,385	5,927
Inventories		(1,858)	465
Trade and other receivables		3,406	(1,630)
Other current assets		172	(1,507)
Trade and other payables		28,346	10,921
Other current liabilities		(988)	(5,526)
Other non-current assets and liabilities		119	3,204
Other cash flows from /(used in) operating activities		(56,328)	(63,383)
Interest paid		(41,474)	(49,044)
Interest received		231	228
Income tax paid		(15,085)	(14,567)
Cash flows from / (used in) operating activities		276,264	217,683

EUSKALTEL, S.A. AND SUBSIDIARIES

Consolidated Statements of Cash Flows for the years ended 31 December 2018 and 2017

(Expressed in thousands of Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Payments for investments		(153,510)	(262,243)
Acquisition of subsidiaries, net of cash and cash equivalents	5	-	(153,669)
Intangible assets	6	(56,493)	(36,426)
Property, plant and equipment	7	(97,017)	(72,148)
Proceeds from sale of investments		501	220
Property, plant and equipment		-	220
Collections from the sale of subsidiaries, net of cash and cash equivalents	1	501	-
Cash flows from / (used in) investing activities		(153,009)	(262,023)
Proceeds from and payment for equity instruments		257	(1,459)
Issue of equity instruments		-	(481)
Acquisition of own equity instruments		-	(978)
Disposal of own equity instruments		257	-
Proceeds from and payment for financial liability instruments		(25,205)	1,766
Issue of:		79,795	275,164
Bonds and other marketable securities	11	70,700	-
Loans and borrowings		-	272,850
Other		9,095	2,314
Repayment of:		(105,000)	(273,398)
Loans and borrowings	11	(105,000)	(273,398)
Dividends and interest on other equity instruments paid		(49,603)	(54,605)
Dividends		(49,603)	(54,605)
Cash flows from/(used in) financing activities		(74,551)	(54,298)
Cash and cash equivalents at beginning of the year		58,652	157,290
Cash and cash equivalents at year end		107,356	58,652
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		48,704	(98,638)

Derio, 27 February 2019

EUSKALTEL, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 December 2018

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

NOTE 1.- General information

Euskaltel, S.A. (hereinafter the Company) was incorporated with limited liability on 3 July 1995. Its first product was launched on the market on 23 January 1998. Its registered office is located in Derio (Bizkaia) and its products are primarily marketed and sold in the Basque Country.

The Company's statutory and principal activity since incorporation has been the rendering, management, installation, operation and marketing and sale of telecommunications networks and services in accordance with prevailing legislation, as well as the marketing and sale of goods required to carry out these services. The Company's main facilities are located at the Bizkaia technology park.

On 1 July 2015 the Company's shares were admitted to trading on the Barcelona, Bilbao, Madrid and Valencia stock exchanges.

On 27 November 2015 the Company acquired the entire share capital of R Cable y Telecomunicaciones Galicia, S.A. (hereinafter R. Cable) (see note 5), an entity incorporated in A Coruña on 1 August 1994 whose principal activity is the rendering of services similar to those of the Company, in Galicia. R Cable is the leading telecommunications operator in Galicia, with access to an extensive fibre optic network, and provides mobile telephone services through an agreement with a virtual mobile operator.

On 26 July 2017 the Company acquired the entire share capital of Parselaya, S.L., indirect holder of 100% of Telecable de Asturias, S.A. (hereinafter Telecable) (see note 5), a company incorporated in Oviedo on 26 January 1995 whose principal activity is the rendering of services similar to those of the Company, in Asturias.

On 21 June 2018, the board of directors of Telecable de Asturias, S.A., Telecable Capital Holding, S.A. and Parselaya, S.A. approved the merger of Telecable de Asturias, S.A. by the absorption of Telecable Capital Holding, S.A. and Parselaya, S.A.

In 2018, Cinfo, Contenidos Informativos Personalizados, S.L. was excluded from the consolidation scope due to the sale of this company.

The companies that, along with Euskaltel, S.A., comprise the Euskaltel Group, and the percentage ownership of the Parent in each (direct and/or indirect) at 31 December 2018 are as follows: R Cable y Telecomunicaciones Galicia, S.A. (100%), Telecable de Asturias, S.A.U.(100%) and EKT Cable y Telecomunicaciones, S.A.U. (100%).

NOTE 2.- Basis of presentation

2.1. True and fair view

The accompanying consolidated annual accounts have been prepared on the basis of the accounting records of Euskaltel, S.A. and of the consolidated entities. The consolidated annual accounts for 2018 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework, to give a true and fair view of the consolidated equity and consolidated financial position of Euskaltel, S.A. and subsidiaries (the Group) at 31 December 2018, and the consolidated results of operations and changes in consolidated equity and cash flows of the Group for the year then ended.

The Company applied International Financial Reporting Standards as adopted by the European Union (IFRS-EU) for the first time when preparing its financial statements for 2012 in the context of the stock flotation mentioned in the previous note.

The directors of the Parent consider that the consolidated annual accounts for 2018, authorised for issue on 27 February 2019, will be approved with no changes by the shareholders at their annual general meeting.

2.2. Comparative information

The consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto for 2018 include comparative figures for the prior year.

2.3. Adoption of International Financial Reporting Standards (IFRS)

First-time application of accounting standards

The Group has adopted the following standards for the first time for its annual accounts beginning on 1 January 2018.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 - Revenue from Contracts with Customers establishes the criteria for recognising revenue from contracts with customers. This standard replaces IAS 18 - Revenue and IAS 11 - Construction Contracts.

The new standard requires revenue to be recognised in the amount expected to be received from the customer when control over the goods or services is transferred to the customer. The transfer of control may take place at a moment in time or over time. When the same contract includes more than one compliance obligation for the customer, revenue will be recognised based on the sale price regardless of the various compliance obligations.

The Euskaltel Group has chosen the transition option established in the Standard, which means applying IFRS 15 retroactively and the cumulative effect of the initial application is recognised on the date of initial application, without restating the information presented in 2017 under the aforementioned previous standards and taking advantage of the approach that allows the standard to be applied only to contracts that are not completed by 1 January 2018. The application of this standard has led to a reduction of Euros 607 thousand (net of the tax effect) in reserves due to income from sales of equipment. The effect on the consolidated income statement has not been significant.

IFRS 9 - Financial Instruments

(i) Recognition and classification of financial instruments

The Group recognises financial instruments when it becomes party to the contract or legal transaction, in accordance with the terms set out therein.

The criteria for classification of financial assets depend on both the manner in which a company manages its financial instruments (its business model) and the existence and characteristics of the cash flows from the financial assets. Based on the above, assets are measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss for the period, as follows:

- If the purpose of the business model is to hold a financial asset in order to obtain contractual cash flows and, based on the contract conditions, cash flows are received on different dates exclusively constituting payments of principal plus interest on the principal, the financial asset is measured at amortised cost.
- If the purpose of the business model is both to obtain contractual cash flows and to sell and, according to the contract conditions, cash flows are received on specific dates exclusively constituting payments of principal plus interest on the principal, the financial assets are measured at fair value through other comprehensive income (equity).

Beyond these scenarios, all other assets are measured at fair value through profit or loss. By default, all equity instruments (such as shares) are measured in this category. This is because contractual cash flows are not only payments of principal and interest.

Financial derivatives can also be classified as financial assets at fair value through profit and loss, unless they are designated as hedging instruments.

For measurement purposes, financial assets should be classified in one of the following categories, the accounting policies of which are detailed hereinafter:

- a) Financial assets at amortised cost: These assets are recognised subsequent to their initial recognition at their amortised cost in accordance with the effective interest rate method. This amortised cost is reduced by any impairment losses recognised. Gains and losses for the period are recognised when the financial asset is disposed of or impaired, or when exchange differences arise. Interest calculated using the effective interest rate method is recognised under "financial income" in the income statement.
- b) Financial assets at fair value through profit or loss: Financial assets at fair value through profit and loss are recognised initially and subsequently at fair value, without including the transaction costs, which are expensed. Gains and losses resulting from changes in the fair value are recognised in "other financial income/(expenses)" in the period in which they arise. Any dividend or interest is also taken to financial profits.

- c) Debt instruments at fair value through other comprehensive income: These instruments are recognised subsequently at their fair value, recording changes in the fair value in “Other comprehensive income”. Interest income, impairment losses and exchange differences are recognised in the income statement. When sold or disposed of, accumulated fair value adjustments recognised in “Other comprehensive income” are included in the income statement as “other financial income/(expenses)”.
- d) Equity instruments at fair value through other comprehensive income: Their subsequent measurement is at fair value. Dividends are recognised as revenue unless they clearly represent a recovery of the cost of the investment. Other losses and gains are taken to “Other comprehensive income” and never reclassified to profit and loss.

Given the nature of the Group's financial assets, the change in reporting criteria set forth in IFRS 9 has not been significant.

(ii) Impairment of financial assets

The impairment model is applicable to financial assets measured at amortised cost.

The impairment model is based on a dual measurement approach, under which there will be an impairment provision based on the expected losses in the next 12 months or based on the expected losses throughout the asset's life. The second approach is adopted in favour of the first one when there is a significant deterioration in the credit quality.

This standard, which partially replaces IAS 39, simplifies the recognition and measurement criteria for financial instruments. It maintains a mixed measurement model and establishes only two main categories for financial assets: amortized cost and fair value. The criteria for classification depends on the company's business model and the characteristics of the cash flows from the financial asset. It also simplifies hedge accounting and provides greater flexibility.

For trade receivables, the Group applies the accounting policy of expected losses, calculated, on the basis of the estimated percentage of unrecoverable receivables in recent years over historical sales figures.

To determine if a financial asset has suffered a significant deterioration in its credit risk since its initial recognition, or to estimate the expected loan losses throughout the life of the asset, the Group considers all reasonable and verifiable information that is relevant and available without incurring in additional efforts or disproportionate expenses. This includes both quantitative and qualitative information, based on the experience of the Group or other entities on historical loan losses, and observable market information on the credit risk of the specific financial instrument or similar financial instruments.

The Group applies the simplified approach under IFRS 9, which requires that losses expected over the life of the item are recognised from the initial recognition of the account receivable.

With regard to the new financial asset impairment calculation model based on the model of expected loan losses over the life of the asset, the Group has implemented this new method at 1 January 2018 and its impact has led to a reduction in reserves of Euros 1.9 million, net of the tax effect.

(iii) Hedge accounting

IFRS 9 softens the requirements for effective hedging. Under IAS 39, a hedge had to be highly effective, both prospectively and retrospectively. IFRS 9 replaces this consideration by requiring an economic relationship between the hedged item and the hedging instrument and that the hedged ratio be the same as that used by the entity for risk management purposes. The standard attempts to bring hedge accounting closer to risk management, with an objective-based focus and trying to eliminate the inconsistencies and weaknesses in the previous model.

The Group uses interest rate contracts mainly to hedge against the variable interest rates applicable to its borrowings. The hedge accounting is aligned with the Group's risk management model so no changes have been made to the hedge accounting items.

(iv) Refinancing of financial liabilities

By applying the IASB's 2017 interpretation of refinancing financial liabilities under IFRS 9, the contractual cash flows of the refinanced debt must be discounted at the original effective interest rate, reviewed with associated fees, rather than at the new rate resulting from the refinancing transaction.

The difference obtained will have an impact on the consolidated income statement as an expense or revenue at the date of the refinancing, although, given the retroactive nature of this interpretation, for transactions performed prior to 1 January 2018, the difference is recorded against reserves.

In this respect, the annual refinancing operations carried out by the Parent company since 2015 (the date on which the syndicated financing commenced) have resulted on 1 January 2018 in a Euros 2.9 million increase in reserves, net of the tax effect.

The table below contains a summary of the impact of adopting IFRS 15 and IFRS 9 on the consolidated statement of financial position at 31 December 2018 for each of the headings affected. The impact of adoption on the consolidated income statement and the statement of cash flows at 31 December 2018 was not significant.

31 December 2018	Amount before	Adjustments	Adjustments	Amount in
Thousands of Euros	adoption of	IFRS 15	IFRS 9	consolidated
	IFRS 15 & 9			statement of
				financial
				position
Assets				
Non-current assets				
Deferred tax assets	124,085	339	661	125,085
Total non-current assets	2,720,017	339	661	2,721,017
Current assets				
Assets under contracts with customers	-	520	-	520
Trade and other receivables	53,183	-	(2,571)	50,612
Total current assets	179,722	520	(2,571)	177,671
Total assets	2,899,739	859	(1,910)	2,898,688
Total equity and liabilities				
Equity				
Retained earnings	109,973	(482)	970	110,461
Total equity	974,398	(482)	970	974,886
Non-current liabilities				
Bank borrowings	1,451,220	-	(3,903)	1,447,317
Deferred tax liabilities	85,876	163	1,023	87,062
Total non-current liabilities	1,564,906	163	(2,880)	1,562,189
Current liabilities				
Liabilities under contracts with customers	-	1,178	-	1,178
Total current liabilities	360,435	1,178	-	361,613
Total equity and liabilities	2,899,739	859	(1,910)	2,898,688

IFRS 16 - Leases

Under the new requirements, and with certain exceptions, lessees must recognise a right-of-use asset at the present value of the future lease payments, and a lease liability.

The Group is the lessee in a series of lease agreements covering several assets. Under current legislation a significant portion of these contracts are classified as operating leases and the relevant payments are generally recognised on a straight-line basis over the term of the contract.

The adoption of IFRS 16 is mandatory for annual periods beginning on or after 1 January 2019 and, therefore, the Group has analysed the estimated impact of this new standard on these contracts.

The Group has chosen to implement IFRS 16 using the modified retroactive method, recognising the right-of-use asset for an amount equal to the lease liability. In applying this approach, the Group will not restate comparative information. This analysis also includes an estimation of the lease term, based on the period of that term that cannot be cancelled and the periods covered by the renewal options available to Euskatel Group and which are considered to be reasonably certain. Assumptions are used to calculate the discount rate, which depends primarily on the incremental financing rate for the estimated terms and which represents the interest rate that a lessee would have to pay for borrowing for a similar term, and with a similar guarantee, the funds needed to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

The Group has decided to use the following practical approaches when applying the simplified method for leases previously classified as leases:

- Using a single discount rate for certain asset portfolios.
- Excluding leases whose term ends within 12 months of the first-time application date.
- Excluding leases with low-value underlying assets.

The Group expects that the impact of this standard in 2019 will mean recognising, as of 1 January 2019, right-of-use assets and lease liabilities in the region of between Euros 70 million and 77 million. The Group estimates that this new standard will not have a significant impact on profit after tax in 2019.

2.4. Critical issues regarding the valuation and estimation of uncertainties

Preparation of the consolidated annual accounts in accordance with IFRS-EU requires certain estimates and judgements concerning the future. These are evaluated continuously and are based on historical experience and other factors, including expectations of future events and, where applicable, the justified opinion of renowned experts.

In the event that the final outcome of the estimates differed from the amounts initially recognised, or information that would modify these estimates became available, the effects of any changes in the initial estimates are accounted for in the period they are known.

The estimates and judgements that present significant risk of a material adjustment to the carrying amounts of assets and liabilities in the subsequent reporting period are as follows:

a) Capitalisation of tax credits

Deferred tax assets are recognised for all available deductible temporary differences, tax loss carryforwards and deductions to the extent that it is probable that the companies comprising the Group will obtain sufficient taxable income against which these assets can be utilised. In order to determine the amount of the deferred tax assets to be recognised, estimates are made of the amounts and dates on which future taxable profits will be obtained and the reversal period of temporary differences.

b) Impairment of goodwill

The acquisitions of R Cable and Telecable have resulted in goodwill whose recoverable amount must be reviewed annually. The recoverable value is determined through discounted future cash flow estimates, which require the application of judgments by Directors when establishing certain key assumptions.

c) Volume discounts from suppliers

The Group's expenditure for supplies is reduced due to certain volume discounts, the application of which is subject to purchasing a certain amount over the stipulated period, normally more than one year. The adequate recognition of such discounts under these circumstances requires that the Group be able to reliably estimate the degree of compliance with the conditions entitling it to the discount.

2.5. Presentation currency

The consolidated annual accounts are expressed in thousands of Euros rounded off to the nearest thousand.

NOTE 3.- Accounting principles

3.1. Subsidiaries

Subsidiaries are entities over which the Company, either directly or indirectly, exercises control. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

The income, expenses and cash flows of subsidiaries are included in the consolidated annual accounts from the date of acquisition, which is the date on which the Group obtains effective control of the subsidiaries. Subsidiaries are no longer consolidated once control is lost.

Intragroup balances and transactions and any unrealised gains or losses are eliminated on consolidation.

The subsidiaries' accounting policies have been adapted to Group accounting policies for like transactions and events in similar circumstances.

3.2. Business combinations

Business combinations are recognised using the acquisition method, which is applied from the date the Group obtains control of the acquiree. At that date, the assets acquired and liabilities assumed are generally recognised at fair value. Liabilities assumed include any contingent liabilities that represent present obligations arising from past events for which the fair value can be reliably measured. Indemnification assets assumed by the seller are measured using the same criteria applicable to the liability subject to indemnification, taking into consideration any insolvency risk and any contractual limit on the indemnity amount.

The excess of the consideration given and the net identifiable assets acquired and liabilities assumed is recognised as goodwill.

If the values attributable to the assets and liabilities acquired at the date control is obtained have only been able to be determined provisionally, these are recognised at their estimated amounts at that date, and any adjustments made during the valuation period are recognised as if they had been known at the time control was obtained. Adjustments to provisional amounts entail modifying comparative figures. Adjustments to provisional amounts are only recognised when they correspond to facts and circumstances that existed at the acquisition date, which, had they been known, would have affected the recognised amounts. After this period, the initial measurement is only adjusted when correcting errors.

The contingent consideration is classified based on the underlying contractual conditions as a financial asset or liability, equity instrument or provision. If any subsequent changes in the fair value of a financial asset or liability do not relate to an adjustment to the measurement period, they are recognised in the consolidated income statement. The contingent consideration classified as equity is not subsequently restated and the settlement is also recognised in equity. Any contingent consideration classified as a provision is subsequently recognised at fair value through profit or loss.

Contingent liabilities are recognised until settlement, cancellation or expiration at the higher of the initially recognised amount, less amounts which should be taken to consolidated profit or loss in accordance with revenue recognition criteria, and the amount resulting from provision measurement criteria.

3.3. Intangible assets

Intangible assets are recognised at acquisition cost or production cost, based on the same principles used to determine production costs for inventories. Production costs are capitalised in the income statement caption Work performed by the entity and capitalised. Intangible assets are recorded on the balance sheet at cost value less accumulated amortisation and impairment allowances.

a) Goodwill

Goodwill is determined using the same criteria as for business combinations.

Goodwill is not amortised but is tested for impairment annually or more frequently where events or circumstances indicate that an asset may be impaired. Goodwill on business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment.

b) Computer software

Costs related to the acquisition and development of computer software are recognised at cost of acquisition or production and are amortised on a straight-line basis over their estimated useful lives of between 3 and 5 years.

Computer software maintenance costs are charged as expenses when incurred.

c) Licences

Licences for the use of radio space are carried at cost less accumulated amortisation and any recognised accumulated impairment. Amortisation is calculated on a straight-line basis over the concession period.

d) Brands

The brands were recognized in the acquisitions of R Cable and Telecable at their fair value at those dates. They are not amortised as they are considered assets with indefinite useful lives and the Group therefore performs impairment tests individually or jointly with goodwill at least once a year and provided there are indications of impairment.

e) Other intangible assets

Other intangible assets include the incremental and specific costs related to the amounts paid for each contract entered into, and are amortised in a systematic manner that is consistent with the transfer to the customer of the goods or services to which the asset relates, provided that the customer does not discontinue the contract, in which case the amount pending amortisation is taken to profit and loss.

The Group updates amortisation to reflect any significant changes in the expected transfer schedule of the goods and services relating to the asset to the client. Such changes are recognised as a change in the accounting estimate.

This caption also includes the amount at which customer relations arising from the acquisitions of R Cable and Telecable (see note 5) have been recognised. These assets are measured at fair value and are amortised on a straight-line basis over their estimated useful lives of between 6 and 13 years.

f) Impairment

The Group evaluates and determines impairment losses and reversals of impairment losses on intangible assets based on the criteria described in note 3.5.

3.4. Property, plant and equipment

Property, plant and equipment are recognised at cost of acquisition or production, less accumulated depreciation and any recognised accumulated impairment losses.

The value of work performed by the entity and capitalised is calculated taking into account direct and indirect costs attributable to those assets.

Costs incurred to extend, modernise or improve property, plant and equipment are only recorded as an increase in the value of the asset when the capacity, productivity or useful life of the asset is increased and it is possible to ascertain or estimate the carrying amount of the assets that have been replaced in inventories.

Recurring maintenance costs are recognised in the consolidated income statement when incurred.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, based on the actual decline in value due to operation and use.

The estimated average useful lives of property, plant and equipment are as follows:

Buildings	50
Civil engineering	50
Cablings	18-40
Network equipment	10-18
Customer equipment	2-15
Other installations, equipment and furniture	6-7
Other property, plant and equipment	5-8

The majority of property, plant and equipment reflects investments to deploy the Group's telecommunications network throughout the Basque Country, Galicia and Asturias.

The Company reviews the useful lives of the assets, as well as their consideration as under construction or operating, and makes any necessary adjustments at each reporting date.

When the carrying amount of an asset is higher than its estimated recoverable amount, its value is immediately reduced to its recoverable amount in accordance with the criteria in note 3.5. Impairment losses, or reversals of impairment losses if the circumstances in which they were recognised no longer exist, are recognised as an expense or income, respectively, in the consolidated income statement.

Finance costs that are directly attributable to the acquisition or construction of assets which will not be available for use for a considerable length of time are included in the cost of the asset when the expenses related to the asset have been incurred, interest has been accrued and the steps necessary to prepare the assets for their intended use are being taken. Capitalisation of borrowing costs is suspended when construction of the assets is interrupted, except when the interruption is considered necessary to make the asset operational.

3.5. Impairment losses on non-financial assets

The Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. Nonetheless, the Group tests assets with indefinite useful lives for impairment at least annually, irrespective of whether there is any indication of impairment.

Recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

Impairment losses for CGU's are allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata with their carrying amounts. The carrying amount of each asset may not be reduced below the highest of its fair value less costs of disposal, its value in use and zero.

At the end of each reporting period the Group assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairment losses are only reversed if there has been a change in the estimates used to calculate the recoverable amount of the asset. Impairment of goodwill is not reversible.

Impairment losses are recognised in the consolidated income statement.

A reversal of impairment is recognised in the consolidated income statement. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

A reversal of an impairment loss for a CGU is allocated to the non-current assets of each unit, except goodwill, pro rata with the carrying amounts of those assets. The carrying amount of an asset may not be increased above the lower of its recoverable amount and the carrying amount that would have been disclosed, net of amortisation or depreciation, had no impairment loss been recognised.

After an impairment loss or reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods based on its new carrying amount.

However, if the specific circumstances of the assets indicate an irreversible loss, this is recognised directly in losses on the disposal of fixed assets in the consolidated income statement.

3.6. Inventories

Inventories are initially measured at the lower of cost (whether cost of acquisition or production) and net realisable value, and any related impairment losses or reversals are recognised in the consolidated income statement.

Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

3.7. Financial instruments

a) Recognition and classification of financial instruments

For measurement purposes, the Group classifies financial instruments into financial assets and financial liabilities at fair value through profit or loss, separating those initially designated from those held for trading, or measured necessarily at fair value through profit and loss, financial assets and liabilities measured at amortised cost and financial assets at fair value through other comprehensive income, separating equity instruments initially designated from other financial assets. Financial assets other than those at fair value through profit and loss and equity instruments at fair value through other comprehensive income are classified based on the business model and the nature of the contractual cash flows. Financial liabilities are measured at amortised cost, except those designated at fair value through profit and loss and those held for trading.

A financial asset or liability is classified as held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- It is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, or
- It is an obligation to deliver financial assets obtained on loans no longer held.

The Group classifies a financial asset at amortised cost if held within the framework of a business model whose purpose is to hold financial assets in order to obtain contractual cash flows and the contractual conditions of the financial asset give rise, on the specified dates, to cash flows constituting solely payments of principal plus interest on the outstanding principal (SPPI).

The Group classifies a financial asset at fair value through other comprehensive income if held within the framework of a business model whose purpose is to obtain contractual cash flows and sell financial assets and the contractual conditions of the financial asset give rise, on the specified dates, to cash flows constituting SPPI.

The business model is determined by the Group's key personnel at a level that reflects the way in which the groups of financial assets are jointly managed to serve the specific business purpose. The Group's business model represents the manner in which it manages its financial assets to generate cash flows.

Financial assets and liabilities for contingent consideration arising in a business combination are classified as financial assets and liabilities measured at fair value through profit or loss.

b) Financial assets and liabilities at amortised cost

Financial assets and liabilities at amortised cost are initially recognised at fair value, plus or less transaction costs, and subsequently measured at amortised cost using the effective interest method.

c) Impairment

The Group recognises impairments on expected credit losses of financial assets measured at amortised cost and assets under contract.

At the end of each reporting period, the Group measures an impairment equivalent to the credit losses expected in the next twelve months for financial assets whose credit risk has not increased significantly since the initial date of recognition, or when the credit risk of a financial asset is deemed to have already increased significantly.

Notwithstanding the above, the Group recognises the expected credit loss over the life of the instrument for trade debtors or assets under contract.

d) Derecognition and modifications of financial liabilities

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

Debt instrument exchanges between the Group and the counterparty or substantial modifications in liabilities initially recorded, are recognised as a settlement of the original financial liability and the new financial liability is accounted for, as long as the instruments have substantially different conditions.

The Group deems that the conditions are substantially different if the present value of the cash flows discounted under the new conditions -including any commission paid, less any commission received, and using the original effective interest rate- differs by at least 10% from the present value of the discounted cash flows still remaining from the original financial liability.

If the exchange is recognised as a settlement of the original financial liability, costs or commissions are recognised as profit or loss in the income statement. Otherwise, modified cash flows are discounted at the original effective interest rate, recognising any difference with the previous carrying value in profit and loss. Similarly, costs or commissions adjust the carrying value of the financial liability and are amortised over the remaining life of the modified liability using the amortised cost method.

3.8. Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions and other short-term, highly liquid investments with original maturity of less than three months.

The Group classifies cash flows corresponding to interest earned and interest paid as an operating activity, and dividends paid out as a financing activity.

3.9. Parent own shares

The acquisition of equity instruments of the Parent by the Group is recognised separately at cost of acquisition as a reduction in equity, regardless of the reason for the purchase. No gain or loss is recognised on transactions involving own equity instruments.

The subsequent redemption of the Parent shares entails a capital reduction equivalent to the par value of the shares. Any positive or negative difference between the purchase price and the par value of the shares is debited or credited to reserves.

Transaction costs related to own equity instruments are accounted for as a reduction in equity, net of any tax effect.

3.10. Hedge accounting

Derivative financial instruments are initially recognised using the criteria set out above for financial assets and liabilities. Derivative financial instruments which do not qualify for hedge accounting are classified and measured as financial assets or liabilities at fair value through profit or loss. Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition.

The Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised with a charge or credit to the finance cost or income accounts.

3.11. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

3.12. Employee benefits

a) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw an offer of those benefits and when it recognises any related restructuring costs.

For termination benefits payable as a result of an employee's decision to accept an offer of benefits, the time when the Group can no longer withdraw the offer of termination benefits is the earlier of when the employee accepts the offer and when a restriction on the Group's ability to withdraw the offer takes effect.

b) Short-term employee benefits

Short-term employee benefits comprise employee remuneration, other than termination benefits, that are expected to be settled in full before 12 months after the end of the reporting period in which the employees render the related services.

The Group recognises the expected cost of short-term employee benefits in the form of accumulating compensated absences when the employees render service that increases their entitlement to future compensated absences. In the case of non-accumulating compensated absences, the expense is recognised when the absences occur.

3.13. Revenue from Contracts with Customers

Revenue from contracts with customers is recognised in the amount expected to be received from the customer when control over the goods or services is transferred to the customer. The transfer of control may take place at a moment in time or over time. When the same contract includes more than one compliance obligation for the customer, revenue is recognised based on the sale price regardless of the various compliance obligations.

The Group has determined its main compliance obligation as the rendering of telecommunications services consisting of mobile and fixed telephony, television and Internet services to its customers. The telecommunications service consists of a number of different services that are substantially the same and have the same pattern of transfer to the customer. Revenue is recognised over the length of time those services are rendered. Euskaltel also offers equipment that constitutes a separate compliance obligation and recognises the revenue upon delivery, which is the time at which control over the equipment is transferred to the customer.

The Group determines the independent sale price based on the observable sale price of a good or service when sold separately in similar circumstances to similar clients. In those cases in which the sum of the independent sale prices of the goods or services contracted exceeds the agreed consideration, unless the Group has observable evidence that the whole discount corresponds to one or more of the contract execution obligations, but not all of them, the discount is allocated proportionally over the contract's execution obligations.

A contract's financial component is not considered significant when the period between the time the goods or the services promised to the customer are transferred and the time at which the customer pays for those goods or services is one year or less.

3.14. Leases

Leases in which the lessor retains substantially all the risks and rewards incidental to ownership are classified as operating leases. Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

3.15. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign currency gains and losses resulting from the settlement of transactions and translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the consolidated income statement.

3.16. Income tax

The income tax expense or tax income is recognised in the consolidated income statement each year, calculated based on the pre-tax profits, adjusted for permanent differences with fiscal criteria. If the profit is associated with an income or expense recognised directly in equity, the tax expense or tax income is also recognised against equity.

Deferred tax assets and unused tax credits in respect of loss carryforwards are only capitalised when:

- their future realisation is considered probable;
- the temporary differences are related to investments in subsidiaries, associates and joint ventures providing the temporary differences will reverse in the foreseeable future and sufficient taxable income is expected to be generated against which the differences can be offset;

The Group recognises deferred tax liabilities in all cases except when:

- they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income;
- they are related to investments in subsidiaries, associates and interests in joint ventures over which the Group is able to control the timing of the reversal of the temporary difference and it is not probable that the temporary difference will reverse in the foreseeable future.

Tax credits in respect of all items, including loss carryforwards, are recognised at the tax rate that is expected to apply to the years when the asset is realised, based on tax rates and tax laws that have been enacted at the reporting date.

The Group reviews the carrying amount of deferred tax assets at the reporting date and reduces this amount to the extent that it is not probable that sufficient taxable profit will be available against which to recover them. Additionally, at year end, the Group reassesses whether the conditions for recognising previously unrecognised deferred tax assets have been met.

The Group only offsets deferred tax assets and liabilities if it has a legally enforceable right, when they relate to income taxes levied by the same taxation authority and on the same taxable entity and when the taxation authority permits the Group to make or receive a single net payment, or to recover the assets and settle the liabilities simultaneously in each future year in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3.17. Environmental issues

Expenses derived from protecting and improving the environment are recognised as an expense in the period in which they are incurred. Property, plant and equipment modified or acquired to minimise the environmental impact of its activity and protect and improve the environment are recognised as an increase in property, plant and equipment.

NOTE 4.- Financial risk management

The Group's activities are exposed to credit risk, liquidity risk, and market risk, the latter of which includes currency and interest rate risk.

The Group uses financial risk evaluation and mitigation methods suited to its activity and scope of operations, which are sufficient to adequately manage risks.

A summary of the main risks affecting the Group, and the measures in place to mitigate their potential affect, is as follows:

a) Credit risk

Credit risk is the risk of financial loss to which the Group is exposed in the event that a customer or counterparty to a financial instrument fails to discharge a contractual obligation. This risk is concentrated in receivables.

The Group considers customer credit risk to be mitigated by the application of different policies, and the high level of dispersion of receivables. Among the different policies and specific practices are the customer acceptance policy, continual monitoring of customer credit, which reduces the possibility of default on the main receivables, and collection management.

Cash and cash equivalents reflect the amounts available with financial institutions that have high credit ratings.

b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it has enough liquidity to settle its debts as they fall due, in both normal and stressed conditions, without incurring unacceptable losses or compromising its reputation.

The Group adjusts the maturities of its debts to its capacity to generate cash flows to settle them.

To do this, the Group has implemented a five-year financing plan with annual reviews and regular analyses of its financial position, which includes long-term projections, together with daily monitoring of bank balances and transactions.

c) Market risk, currency risk and interest rate risk

Market risk is the risk that changes in prices could affect the Group's revenue or the value of its financial instruments. The objective of managing market risk is to control exposure to this risk, within reasonable parameters, and optimise returns.

The Group's scope of operations barely exposes it to currency or price risks, which may arise from occasional purchases in foreign currency of insignificant amounts.

Interest rate risks arises on variable-rate loans from financial institutions and related parties, which expose the Group to fluctuations in future cash flows. To mitigate the risk of the effect of a potential rise in interest rates, during 2017 the Company finalised agreements with certain financial institutions to hedge against increases in the Euribor, over a nominal amount of Euros 825 million, equivalent to 50% of the nominal amount drawn down on loans with financial institutions.

The Group settles interest on a regular basis, which allows it to closely monitor the performance of interest rates in the financial market.

For the year ended 31 December 2018, had interest rates risen by 100 basis points, with other variables remaining constant, profit (after tax) would have fallen by Euros 8,015 thousand (Euros 7,182 thousand for the year ended 31 December 2017).

NOTE 5.- Business combinations

On 26 July 2017 the Parent Company acquired 100% of the shares in Parselaya, S.L., which indirectly wholly owned Telecable de Asturias, S.A. (merged during 2018) and the loans maintained by the former shareholder with Parselaya, S.L., in the amount of Euros 181,724 thousand. The acquisition cost totalled Euros 403,777 thousand and consisted of the following items:

- A cash payment of Euros 174,777 thousand;
- Issue of 26,800,000 shares whose fair value at the business combination date was Euros 227,961 thousand.
- Contingent price based on a percentage of net tax credits (understood to be the difference between existing tax credits less deferred liabilities arising as a result of the application of accelerated depreciation to fixed assets) recorded by the acquired companies. The price will be paid based on compliance with certain conditions. The estimated fair value of that payment is Euros 1,039 thousand, recognised under the heading Current payables in the balance sheet at 31 December 2018 and 2017.

The acquired business generated consolidated revenues and a loss for the Group of Euros 56,845 thousand and Euros 3,123 thousand, respectively, between the acquisition date and the reporting date.

Had the acquisition taken place on 1 January 2017, the acquired business's contribution to consolidated revenues and loss for the year ended 31 December 2017 would have amounted to Euros 140,951 thousand and Euros 13,810 thousand, respectively.

The assumptions used in the proforma estimate of profit/(loss) were as follows:

- Profit/(loss) for 2017.
- Depreciation of asset items acquired at fair value from 1 January 2017.

Details of the calculation of goodwill are as follows:

	Thousands of Euros
Cash paid	174,777
Contingent consideration	1,039
Fair value of equity instruments issued	<u>227,961</u>
	403,777
 Fair value of net assets acquired	 <u>(29,704)</u>
Goodwill	<u><u>433,481</u></u>

The most significant factor when recognising goodwill was the measurement of expected synergies and other gains arising from the business combination.

Costs related to the acquisition amounted to Euros 5,565 thousand and are recognised under other operating expenses in the consolidated income statement for 2017 see note 13.4).

Details of the fair value of the main assets acquired are as follows:

	Thousands of Euros
Assets	
Brand (note 6)	21,703
Customer relations (note 6)	109,443
Other intangible assets (note 6)	18,757
Property, plant and equipment (note 7)	144,795
Current assets	35,289
Other assets	988
Deferred tax assets (note 12)	<u>31,660</u>
 Liabilities	
Non-current payables and other liabilities (note 11)	276,576
Current liabilities	47,662
Other liabilities	119
Deferred tax liabilities (note 12)	<u>67,982</u>
 Total net assets	 <u><u>(29,704)</u></u>
 Cash paid	 174,777
Cash and cash equivalents of the acquiree	<u>21,108</u>
Cash outflow for the acquisition	<u><u>153,669</u></u>

The main assets and liabilities at the date control was taken of Telecable de Asturias, S.A.'s operations were calculated as follows:

- **Brand:** The fair value of this intangible asset was calculated by applying the relief-from-royalty method, the most significant parameters of which were a royalty of 1.25%, based on royalties observed in the sector, a discount rate of 8.1% and a perpetuity growth rate of 0.5%.
- **Customer relations and agreements:** these were measured using the Multi Excess Earnings Method (MEEM), which calculates the value of an asset as the sum of the excess future earnings discounted to their present value, after considering supporting asset charges. The key parameters used in measuring this intangible asset were the churn rate, the EBITDA attributable to each type of customer and a discount rate of 8.1%.
- **Property, plant and equipment:** this was measured using the depreciated replacement cost method.
- **Deferred assets:** these were measured using the best estimate of future taxable profits and based on the tax laws enacted on the date control was taken.

Goodwill has been allocated to the three cash-generating units comprising the Group's assets, located in the Basque Country, Galicia and Asturias. An amount of Euros 21,703 thousand attributed to the valuation of the brand arising on the acquisition of Telecable, whose useful life is deemed indefinite, has been allocated to Asturias as it is a consolidated brand in that region. Consequently, on the valuation date it has not been possible to set a time limit for the period over which net cash flows are expected to be obtained.

Similarly, on 27 November 2015 the Company acquired a 30% interest in R Cable y Telecomunicaciones Galicia, S.A. and 100% of the share capital of Rede Brigantium, S. L., (hereinafter Rede Brigantium), the holder of the remaining 70% stake in R Cable, which was absorbed during 2016. Hence, the Parent owns the entire share capital of R Cable. Goodwill arisen in this business combination amounts to Euros 591,442 thousand.

NOTE 6.- Intangible assets

Details of intangible assets and movement are as follows:

	31.12.17	Additions	Disposals	Changes in the consolidated group (note 1)	31.12.18
Cost					
Industrial property	3,369	279	-	(280)	3,368
Computer software	121,177	24,766	-	(1,779)	144,164
Licences	7,668	-	-	-	7,668
Brands	53,874	-	-	-	53,874
Other intangible assets	261,162	31,448	(12,333)	-	280,277
	<u>447,250</u>	<u>56,493</u>	<u>(12,333)</u>	<u>(2,059)</u>	<u>489,351</u>
Accumulated amortisation					
Industrial property	(1,491)	(2,600)	-	53	(4,038)
Computer software	(80,575)	(17,032)	-	1,165	(96,442)
Licences	(1,583)	(341)	-	-	(1,924)
Other property, plant and equipment	(44,616)	(35,634)	4,092		(76,158)
	<u>(128,265)</u>	<u>(55,607)</u>	<u>4,092</u>	<u>1,218</u>	<u>(178,562)</u>
Carrying amount	<u>318,985</u>	<u>886</u>	<u>(8,241)</u>	<u>(841)</u>	<u>310,789</u>

	31.12.16	Additions	Business combinations (note 5)	Disposals	31.12.17
Cost					
Industrial property	2,287	1,082	-	-	3,369
Computer software	104,664	10,409	6,104	-	121,177
Licences	5,928	5	1,735	-	7,668
Brands	32,171	-	21,703	-	53,874
Other intangible assets	124,076	25,110	120,361	(8,385)	261,162
	<u>269,126</u>	<u>36,606</u>	<u>149,903</u>	<u>(8,385)</u>	<u>447,250</u>
Accumulated amortisation					
Industrial property	(416)	(1,075)	-	-	(1,491)
Computer software	(64,910)	(15,665)	-	-	(80,575)
Licences	(982)	(601)	-	-	(1,583)
Brands	-	259	-	-	259
Other property, plant and equipment	(21,491)	(26,405)	-	3,021	(44,875)
	<u>(87,799)</u>	<u>(43,487)</u>	<u>-</u>	<u>3,021</u>	<u>(128,265)</u>
Carrying amount	<u>181,327</u>	<u>(6,881)</u>	<u>149,903</u>	<u>(5,364)</u>	<u>318,985</u>

The cost of fully amortised intangible assets in use at 31 December 2018 totals Euros 112,679 thousand (Euros 75,567 thousand at 31 December 2017).

The Group has contracted sufficient insurance policies to cover the risks to which its intangible assets are exposed.

At 31 December 2018 Group personnel expenses totalling Euros 7,349 thousand (Euros 4,844 thousand at 31 December 2017) have been capitalised as intangible asset.

Impairment and Allocation of goodwill and intangible assets with indefinite useful lives to CGUs

The recoverable amount of the CGUs to which the goodwill was allocated has been calculated at its value in use according to cash flow projections determined on the basis of the five-year business plan approved by the Board of Directors at Euskaltel, S.A. Cash flows beyond this period are extrapolated using the growth rates estimated, which do not exceed average long-term growth rates for the sector.

The key hypothesis used by Management for the cash flow projections are as follows:

- Discount rate after tax: 6.3% (7.7% before tax).
- Sales growth for the budgeted period: between 2.1% and 4.7%.
- Growth rate after the five-year period: 2.2%.
- EBITDA Margin/Non-current revenue: approximately 48%, in line with the aforementioned business plan.
- CAPEX/Revenue ratio: at levels of between 16% and 22%, also in line with the aforementioned business plan.

Group Management has prepared a sensitivity analysis for the recoverable value of goodwill covering changes of $\pm 5\%$ in key assumptions, with no impairment whatsoever.

NOTE 7.- Property, plant and equipment

Details of property, plant and equipment and movement in 2018 are as follows:

	31.12.17	Additions	Disposals	Transfers	Changes in the consolidat ed group (note 1)	31.12.18
Cost						
Land and buildings	160,180	-	-	1,217	-	161,397
Civil engineering	534,349	76	-	9,234	-	543,659
Cablings	364,708	5,147	-	28,715	-	398,570
Network equipment	589,604	2,288	(4)	26,484	-	618,372
Customer equipment	349,885	6,684	(5,868)	17,364	-	368,065
Other installations, equipment and furniture	209,104	78	(118)	9,221	(34)	218,251
Under construction	30,221	82,255	(13)	(95,097)	-	17,366
Other property, plant and equipment	65,507	489	-	2,942	(103)	68,835
	<u>2,303,558</u>	<u>97,017</u>	<u>(6,003)</u>	<u>80</u>	<u>(137)</u>	<u>2,394,515</u>
Accumulated depreciation						
Land and buildings	(35,968)	(4,820)	-	-	-	(40,788)
Civil engineering	(82,524)	(13,828)	-	-	-	(96,352)
Cablings	(179,131)	(22,207)	-	-	-	(201,338)
Network equipment	(346,993)	(38,328)	4	-	-	(385,317)
Customer equipment	(231,579)	(37,662)	5,297	-	-	(263,944)
Other installations, equipment and furniture	(121,796)	(11,871)	26	-	19	(133,622)
Under construction	(19,255)	(1,531)	-	-	79	(20,707)
	<u>(1,017,246)</u>	<u>(130,247)</u>	<u>5,327</u>	<u>-</u>	<u>98</u>	<u>(1,142,068)</u>
Carrying amount	<u>1,286,312</u>	<u>(33,004)</u>	<u>(676)</u>	<u>80</u>	<u>(39)</u>	<u>1,252,447</u>

Details of property, plant and equipment and movement in 2017 are as follows:

	31.12.16	Additions	Business combination s (note 5)	Disposals	Transfers	31.12.17
Cost						
Land and buildings	156,626	-	3,472	-	82	160,180
Civil engineering	503,139	-	30,372	-	838	534,349
Cablings	360,279	-	-	-	4,429	364,708
Network equipment	498,981	6,077	70,105	(2,530)	16,971	589,604
Customer equipment	326,847	-	-	-	23,038	349,885
Other installations, equipment and furniture	206,263	23	-	-	2,818	209,104
Under construction	12,913	65,706	-	(222)	(48,176)	30,221
Other property, plant and equipment	24,319	342	40,846	-	-	65,507
	<u>2,089,367</u>	<u>72,148</u>	<u>144,795</u>	<u>(2,752)</u>	<u>-</u>	<u>2,303,558</u>
Accumulated depreciation						
Land and buildings	(30,764)	(5,272)	-	-	68	(35,968)
Civil engineering	(75,016)	(11,307)	-	-	3,799	(82,524)
Cablings	(160,983)	(17,395)	-	-	(753)	(179,131)
Network equipment	(302,586)	(45,613)	-	1,038	168	(346,993)
Customer equipment	(202,968)	(28,611)	-	-	-	(231,579)
Other installations, equipment and furniture	(105,747)	(11,816)	-	-	(4,233)	(121,796)
Under construction	(18,958)	(1,248)	-	-	951	(19,255)
	<u>(897,022)</u>	<u>(121,262)</u>	<u>-</u>	<u>1,038</u>	<u>-</u>	<u>(1,017,246)</u>
Carrying amount	<u>1,192,345</u>	<u>(49,114)</u>	<u>144,795</u>	<u>(1,714)</u>	<u>-</u>	<u>1,286,312</u>

During the year ended 31 December 2018 internal expenses amounting to Euros 9,028 thousand (Euros 7,555 thousand in 2017) have been capitalised.

The cost of fully depreciated property, plant and equipment in use at 31 December 2018 is Euros 465,053 thousand (Euros 487,975 thousand at 31 December 2017).

At 31 December 2018 and 31 December 2017, sufficient insurance policies have been taken out to cover the risks to which property, plant and equipment are exposed.

NOTE 8.- Financial assets

8.1. Classification by category

Details of the Group's financial assets are as follows:

	Financial assets at amortised cost:		Assets classified at fair value through profit or loss		Total	
	31.12.18	31.12.17	31.12.18	31.12.17	31.12.18	31.12.17
Non-current						
Equity instruments	-	-	101	859	101	859
Loans extended	7,067	6,085	-	-	7,067	6,085
Other non-current assets	605	580	-	-	605	580
	<u>7,672</u>	<u>6,665</u>	<u>101</u>	<u>859</u>	<u>7,773</u>	<u>7,524</u>
Current						
Trade receivables	51,132	54,154	-	-	51,132	54,154
Investments	467	438	-	-	467	438
Cash and cash equivalents	107,356	58,652	-	-	107,356	58,652
	<u>158,955</u>	<u>113,244</u>	<u>-</u>	<u>-</u>	<u>158,955</u>	<u>113,244</u>

The carrying amount of financial assets does not differ significantly from their fair value.

8.2. Impairment

Details of the ageing of unimpaired balances past due are as follows:

	31.12.18	31.12.17
Past due		
From 0 to 30 days	4,472	5,456
From 31 to 90 days	2,244	3,684
From 91 to 180 days	5,972	5,408
From 181 to 365 days	<u>2,498</u>	<u>4,546</u>
	15,186	19,094
Not past due		
Invoiced	23,538	22,315
Pending invoice	<u>12,408</u>	<u>12,745</u>
	35,946	35,060
	<u>51,132</u>	<u>54,154</u>

Details of the provision for impairment of trade and other receivables is as follows:

	31.12.18	31.12.17
Gross balance	64,416	65,077
Impairment	<u>(13,284)</u>	<u>(10,923)</u>
	<u>51,132</u>	<u>54,154</u>

Movement in the provision for impairment of trade and other receivables is as follows:

	<u>31.12.18</u>	<u>31.12.17</u>
Opening balance	13,527	11,849
Charges (note 13.4)	4,373	3,695
Reversal	-	(623)
Write-offs	<u>(4,616)</u>	<u>(3,998)</u>
Closing balance	<u>13,284</u>	<u>10,923</u>

The opening balance at 1 January 2018 includes the impact of the first-time application of IFRS 9 amounting to Euros 2,604 thousand (see Note 2.3).

NOTE 9.- Inventories

Details are as follows:

	<u>31.12.18</u>	<u>31.12.17</u>
Terminals and equipment		
Mobile telephones	3,147	1,555
Decoders	1,031	971
Material for subcontractors	2,577	2,403
Other inventories	<u>105</u>	<u>96</u>
Total gross value	6,860	5,025
Impairment	<u>(881)</u>	<u>(881)</u>
Total	<u>5,979</u>	<u>4,144</u>

The Group has taken out sufficient insurance policies to cover the risks to which its inventories are exposed.

NOTE 10.- Equity

10.1. Capital

During 2017, the share capital of Euskaltel, S.A. was increased by Euros 80,400 through the issue of 26,800,000 new shares of Euros 3 par value each, with exclusion of the preferential subscription right. This increase in share capital consisted of a non-cash contribution comprising 100% of the shares in Parselaya, S.L. (see note 5) and it was fully subscribed at an issue price of Euros 9.50 per share. The impact of this transaction on the Company's equity was as follows:

	<u>Number of shares</u>	<u>Capital</u>	<u>Share premium</u>	<u>Total</u>
Capital increase	26,800,000	80,400	174,200	254,600
Difference between the par value and the fair value of the shares issued (note 10.3)				(26,639)
Share issue costs				(668)
Tax effect				187
				<u><u>227,480</u></u>

The new shares were floated on the Barcelona, Bilbao, Madrid and Valencia stock exchanges on 26 July 2017.

After taking into account the effect of the aforementioned corporate transaction, subscribed capital at 31 December is represented by 178,645,360 shares of Euros 3 par value each.

At their annual general meeting held on 12 November 2015, the shareholders authorised the board of directors to increase share capital within 5 years up to half of the share capital existing at the agreement date, with the power to exclude the preferential subscription right up to a limit of 20% of capital at the time of delegation.

Details of shareholders at 31 December 2018 are as follows:

	<u>Number of shares</u>	<u>% ownership</u>
Kutxabank, S.A.	35,921,041	20.11%
Zegona Limited	26,800,000	15.00%
Corporación Financiera Alba	19,651,564	11.00%
Other	96,272,755	53.89%
	<u><u>178,645,360</u></u>	<u><u>100.00%</u></u>

10.2. Capital management

The Group manages its capital with the aim of safeguarding its ability to continue operating as a going concern, so as to continue providing shareholder remuneration and benefiting other stakeholders, while maintaining an optimum capital structure to reduce the cost of capital.

To maintain and adjust the capital structure, the Group can adjust the amount of dividends payable to shareholders, reimburse capital, issue shares or dispose of assets to reduce debt.

The Group controls its capital/debt structure based on the Financial Debt:EBITDA ratio. The Group considers a ratio of between 3:1 and 4:1 to be an appropriate balance and an optimised cost of the resources employed for its activity. At present, and as a result of the recent acquisition described in note 5, the Group's ratios are above those mentioned, although cash flows expected to be generated by the Group's businesses will allow the optimum structure to be achieved in the medium term.

10.3. Share premium

In accordance with prevailing legislation, the share premium is a freely-distributable reserve, provided that equity exceeds share capital.

The difference between the carrying amount of the non-cash share capital increase carried out during the year and the fair value of the equity instruments issued as part of the consideration paid for the acquisition of Telecable (see note 5) was recognised by charging the share premium account.

10.4. Retained earnings

Details of this caption are as follows:

	<u>31.12.18</u>	<u>31.12.17</u>
Reserves		
Legal reserve	52,889	45,177
Voluntary reserves	(5,249)	2,076
Profit/(loss) for the year	<u>62,821</u>	<u>49,562</u>
	<u><u>110,461</u></u>	<u><u>96,815</u></u>

The legal reserve has been appropriated in compliance with article 274 of the Spanish Companies Act, which requires that companies transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital. Until the legal reserve exceeds this limit, it may only be applied to offset losses if no other reserves are available.

10.5. Dividends and interim dividend

On 31 October 2018, the Board of Directors agreed to pay an interim dividend against 2018 results for a gross amount of Euros 0.140 per share outstanding with dividend rights. This decision was notified as a significant event on 5 November 2018. This interim dividend, which was paid on 07 February 2019, amounted to a gross outlay of Euros 25 million (see note 11).

These amounts did not exceed the results obtained since the end of the year, less the estimated Corporate Income Tax payable on these profits, in line with article 277 of the rewritten text of the Spanish Securities Market Act.

The provisional accounting statement drawn up at 30 September 2018 in accordance with the legal requirements, and which showed that there was enough liquidity to distribute the dividend is as follows:

	Thousands of Euros
Net result obtained from 01.01.2018 to 30.09.2018 (*)	41,857
Mandatory reserves	(4,186)
Distributable profit	37,671
Proposed interim dividend (maximum amount)	(25,010)
<u>Cash situation</u>	
Funds available for distribution:	120,301
Cash and cash equivalents	11,051
Appropriations available	109,250
Proposed interim dividend (maximum amount)	(25,010)

(*) After deducting the estimated corporate income tax for the period

The proposed distribution of Parent Company profit for the year ended 31 December 2018 is as follows:

	Euros
Legal reserve	9,208,847.92
Dividends	
Interim dividend	25,010,350.40
Complementary dividend	30,369,711.20
Voluntary reserves	27,499,569.69
	<u>92,088,479.21</u>

The proposed dividend distribution is equivalent to one total unified dividend, including the interim dividend paid, of Euros 0.31 per share outstanding at year end.

10.6. Own shares

At 31 December 2018 the Company has 227,349 shares in its own share portfolio that were acquired at an average weighted cost of Euros 7.05 per share (265,331 own shares were acquired at an average weighted cost of Euros 7.11 each at 31 December 2017).

10.7. Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year, excluding own shares.

Basic earnings per share are calculated as follows:

	2018	2017
Profit for the year attributable to the Parent	62,821	49,621
Weighted average number of ordinary shares outstanding	178,418,011	162,746,696
Basic earnings per share (Euros)	<u>0.35</u>	<u>0.30</u>

The weighted average number of ordinary shares outstanding is determined as follows:

	<u>2018</u>	<u>2017</u>
Ordinary shares outstanding at 1 January	178,380,029	151,683,327
Effect of own shares	37,982	(103,298)
Effect of capital increase	<u>-</u>	<u>11,166,667</u>
	<u>178,418,011</u>	<u>162,746,696</u>

The Company has no diluted ordinary shares.

NOTE 11.- Financial liabilities

11.1. Classification by category

Details of financial liabilities classified by category are as follows:

	Financial liabilities at amortised cost		Liabilities designated at fair value	
	<u>31.12.18</u>	<u>31.12.17</u>	<u>31.12.18</u>	<u>31.12.17</u>
Non-current				
Related parties				
Non-current loans received (note 15.2)	165,267	171,250	-	-
Unrelated parties				
Loans received	1,282,050	1,412,109	-	-
Derivative financial instruments	-	-	1,330	976
Other financial liabilities	<u>21,789</u>	<u>12,658</u>	<u>-</u>	<u>-</u>
	<u>1,469,106</u>	<u>1,596,017</u>	<u>1,330</u>	<u>976</u>
Current				
Related parties				
Current loans received (note 15.2)	<u>11,250</u>	<u>6,750</u>	<u>-</u>	<u>-</u>
Unrelated parties				
Bonds and other marketable securities	70,700	-	-	-
Loans received	72,163	43,300	-	-
Dividend payable (note 19)	25,010	22,688	-	-
Suppliers and asset purchase payables	150,077	140,083	-	-
Salaries payable	8,244	7,878	-	-
Other liabilities	<u>1,746</u>	<u>1,742</u>	<u>-</u>	<u>-</u>
	<u>339,190</u>	<u>222,441</u>	<u>-</u>	<u>-</u>

As a result of the agreements reached during the stock flotation process, the Parent Company negotiated a new loan comprising two tranches of Euros 235 million each (tranches A-1 and B-1) and a revolving credit facility of Euros 30 million (the limit of this facility was changed in 2017 to Euros 300 million). At 31 December 2018, Euros 220 million has been drawn down from the credit facility (Euros 280 million at 31 December 2017).

For the acquisition of R Cable and Telecomunicaciones Galicia, S.A. (see note 1), the Company amended the initial agreement and borrowed two additional tranches (tranches A-2 and B-2) of Euros 300 million each, and an institutional loan (tranche B-3), underwritten by four financial institutions, also for Euros 300 million.

In 2017, the maturity of the long-term credit facility was extended by one year until June 2021 and a new tranche of institutional debt (B4) was contracted amounting to Euros 835 million to repay the outstanding amounts of tranches A1, B2 and B3.

Interest on the financing is pegged to Euribor plus a spread calculated by dividing net consolidated debt by consolidated EBITDA (the coefficient), both of which are defined in the loan clauses. Early repayment of the loans may be demanded if the coefficient exceeds the parameters established. Early repayment of the loan may also be demanded if there is a change in control, understood as the acquisition of more than 50% of shares with voting rights.

A summary of the main characteristics of the tranches at the reporting date are as follows:

Tranche	Interest	Initial nominal amount	Nominal amount outstanding	Maturity
B-1	2.75%	235,000	235,000	30-06-22
A-2	2.25%	300,000	255,000	30-06-21
B-4	2.75%	835,000	835,000	30-11-24
Credit facility	2.25%	300,000	220,000	30-06-21

Tranches B-1 and B-4 are repayable in a single sum as they fall due. Tranche A-2 is repayable according to the following schedule:

	No. of six-month periods	(1)
Six-monthly maturity		
Period 30-06-19 to 30-12-19	2	25%
Period 30-06-20 to 30-12-20	2	30%
30 June 2021	1	30%

(1) *Repayment percentage calculated based on the nominal of the loans repaid on the last day of each six-month period included in the period.*

Details of the repayments of non-current loans with financial institution, including interest, are as follows (millions of Euros):

1 year	2 years	3 years	4 years	5 years	> 5 years	Total
116,183	127,653	407,248	269,396	31,747	866,042	1,818,269

The Parent may not distribute extraordinary dividends or redeem own shares in its own share portfolio if the coefficient referred to in this note exceeds 4 after the extraordinary dividend distribution. However, the financing contract stipulates that there shall be no restrictions on the payment of dividends with profit from ordinary activities.

Upon availing of the financing arrangements, the Parent Company pledged certain shares in Group companies, loans granted and bank accounts as collateral. At the general meeting held on 27 June 2016, the shareholders also approved the lodging of a collateral right over the Parent's telecommunications network.

Thus, the Group holds undrawn current credit facilities totalling Euros 49.25 million.

During 2017 the Parent Company obtained interest rate hedges to cover possible variations in interest rates exceeding 1% in exchange for the payment of a fixed monthly premium. These hedges expire in February 2021 and the notional amount covered is Euros 825,000 thousand.

During the period September to December 2018, the Parent Company issued promissory notes for a nominal value of Euros 70,700 miles the context of a short-term commercial paper issue implemented in 2017 for an overall limit of Euros 200 million. These promissory notes have maturities between January and December 2019 and accrue interest at an average annual rate of 0.28%.

The Group has other non-current borrowings totalling Euros 48 thousand.

Other non-current and current financial liabilities include loans carried at amortised cost granted by different government bodies for network deployment work in certain population centres. The nominal value of the loans at 31 December 2018 comes to Euros 23,667 thousand (Euros 15,086 thousand at 31 December 2017).

The fair values of loans and payables do not differ significantly from their carrying amount. The fair value is calculated based on cash flows discounted at a rate pegged to the effective interest rate for borrowings.

11.2. Suppliers

Details of the average payment period referred to in the Spanish Institute of Accounting and Auditing's Resolution of 29 January 2016 are as follows:

	<u>2018</u>	<u>2017</u>
Average supplier payment period (in days)	51.83	44.08
Transactions paid ratio	54.71	45.54
Transactions payable ratio	40.56	37.80
Total payments made (thousands of Euros)	383,346	413,472
Total payments payable (thousands of Euros)	97,959	96,002

The average payment period is the time between delivery of the goods or provision of the services by the supplier and payment of the transaction in accordance with the methodology described in article 5 of the Resolution.

NOTE 12.- Taxes

12.1. Balances with public entities

At 31 December 2018 and 2017 balances with public entities are as follows:

	<u>2018</u>	<u>2017</u>
Assets		
Current tax assets	867	6,745
Liabilities		
Current tax liabilities	1,128	7,470
Value added tax	4,437	7,313
Social Security	791	827
Withholdings and payments on account	7,439	702
Other liabilities	5,865	5,053
	<u>19,660</u>	<u>21,365</u>

The Group has open to inspection all main applicable taxes for the years still open to inspection.

12.2. Income tax

On 27 March 2018 Regional Standard 2/2018 of 21 March was published in the Bizkaia Official Regional Gazette, modifying certain regulations and taxes in the Bizkaia regional tax system, affecting, inter alia, certain articles of Regional Corporation Tax Standard 11/2013. The modifications approved include, inter alia, reduction of tax rates from 28% to 26% in 2018 and to 24% in 2019 and subsequent years, establishing a minimum taxation rate of 15% of the gross tax base for 2018 and 17% for 2019 and subsequent years; and reduction of the application limit of deductions to 35% of the gross tax payable, although the period of application is extended to 30 years. The Parent Company's deferred assets and liabilities have been restated at the 24% tax rate, giving rise to an expense of Euros 98 thousand.

Details of income tax recognised in the income statement are as follows:

	<u>2018</u>	<u>2017</u>
Current expense		
Present year	20,027	18,463
Adjustments	17	645
Deferred expense		
Source and reversal of temporary differences	(7,881)	(9,264)
Changes in taxable income and tax credits	6,903	7,655
Tax rate adjustments	98	-
Tax credits not recognised in prior years	-	(755)
Prior years' adjustments	(263)	37
	<u>18,901</u>	<u>16,781</u>

The relationship between the income tax expense and the profit for the year is as follows:

	<u>2018</u>	<u>2017</u>
Income and expenses for the year	81,687	66,343
Tax rate amounts (*)	21,507	19,315
Permanent differences	(674)	(1,377)
Effect of changes in the tax rate	98	-
Prior years' adjustments	(249)	682
Deductions for the current year	(1,781)	(1,199)
Other adjustments	-	(640)
	<u>18,901</u>	<u>16,781</u>

(*) In 2018, applicable rates are 26% for the Parent Company and 25% for the other Group companies (28% for the Parent Company and 25% for the other companies in 2017).

Certain capitalised deductions are undergoing a tax inspection at the date these consolidated annual accounts were prepared. The Group's directors do not believe that any significant contingencies will arise. The Group could use additional tax credits amounting to approximately Euros 20 million, which have not yet been capitalized since they depend on the favourable resolution by the tax authorities regarding the Group's right thereto.

Details of deferred taxes at 31 December 2018 are as follows:

	<u>31.12.17</u>	<u>Effect new IFRS</u>	<u>Source</u>	<u>Reversal</u>	<u>Other</u>	<u>31.12.18</u>
Deferred tax assets						
Financial liabilities	7,816	-	-	(3,875)	47	3,988
Provision for bad debts	-	-	-	-	-	-
Property, plant and equipment	9,118	-	32	(1,522)	94	7,722
Intangible assets	16,724	-	-	(641)	(15,507)	576
Other assets	150	-	505	(144)	235	746
	<u>33,808</u>	-	537	(6,182)	(15,131)	13,032
Deductions on tax due	134,371	-	1,231	(7,973)	(183)	127,446
	168,179	-	1,768	(14,155)	(15,314)	140,478
Deferred tax liabilities						
Financial liabilities	(289)	-	-	54	-	(235)
Property, plant and equipment	(29,799)	-	-	6,527	9,575	(13,697)
Intangible assets	(75,101)	-	(542)	5,727	6,476	(63,440)
Grants	(9,305)	-	(700)	873	-	(9,132)
Free depreciation	(17,499)	-	(1)	1,873	(130)	(15,757)
Other	-	(155)	(39)	-	-	(194)
	<u>(131,993)</u>	<u>(155)</u>	<u>(1,282)</u>	<u>15,054</u>	<u>15,921</u>	<u>(102,455)</u>
	36,186	(155)	486	899	607	38,023
Offsetting of asset balances	(37,577)					(15,393)
Deferred assets	<u>130,602</u>					<u>125,085</u>
Deferred liabilities	<u>(94,416)</u>					<u>(87,062)</u>

Details of deferred taxes at 31 December 2017 are as follows:

	31.12.16	Business combinations (note 5)	Source	Reversal	Other	31.12.17
Deferred tax assets						
Financial liabilities	-	7,142	674	-	-	7,816
Provision for bad debts	115	-	-	(115)	-	-
Property, plant and equipment	6,920	3,838	6	(1,646)	-	9,118
Intangible assets	1,469	16,603	155	(1,503)	-	16,724
Other assets	201	30	287	(70)	(298)	150
	8,705	27,613	1,122	(3,334)	(298)	33,808
Deductions on tax due	138,175	4,047	1,574	(9,389)	(36)	134,371
	146,880	31,660	2,696	(12,723)	(334)	168,179
Deferred tax liabilities						
Financial liabilities	(349)	-	-	60	-	(289)
Property, plant and equipment	(17,850)	(16,093)	-	4,144	-	(29,799)
Intangible assets	(28,358)	(51,889)	(33)	5,179	-	(75,101)
Grants	(10,113)	-	(125)	933	-	(9,305)
Free depreciation	(19,509)	-	(1)	2,011	-	(17,499)
Other	(448)	-	-	186	262	-
	(76,627)	(67,982)	(159)	12,513	262	(131,993)
	70,253	(36,322)	2,537	(210)	(72)	36,186
Offsetting of asset balances	(10,121)					(37,577)
Deferred assets	136,759					130,602
Deferred liabilities	(66,506)					(94,416)

The deductions mainly arise due to investments in new fixed assets. The application of these deductions is limited to 35% of gross tax payable (45% in 2017).

Except for an amount of Euros 4,817 thousand, the recovery period for unused deductions exceeds twelve months.

Almost all of the deductions pertain to the Parent Company. Given the significance of the capitalized tax credits, the Company performs an annual recoverability analysis even if there is no indication of impairment. The business plans of Euskaltel, S.A. show that the Company will have sufficient future taxable income against which tax credits capitalised at year end can be utilised. Tax credit carryforwards at 1 January 2014 have a 30-year prescription term.

The key hypotheses used by Management for the tax projections are as follows:

- EBITDA growth for the budgeted period: between 3.2% and 5.8%.
- Growth rate after the five-year period: 2.2%

Management has prepared a sensitivity analysis of the recoverable value of the capitalised tax credits covering $\pm 5\%$ changes in the growth rate after the projected period, and no impairment was revealed.

NOTE 13.- Income and expenses

13.1. Revenues

The activity of the companies comprising the Group primarily includes: the provision of combined broadband, Pay TV, mobile and fixed-line telephone services to residential customers, self-employed workers ("Small Office / Home Office - SOHOs"), small and medium-sized enterprises (SMEs), large accounts (including the public sector) and the wholesale market. These transactions constitute the Group's only segment of activity.

For internal management purposes, the Group differentiates between the following types of customers:

- Residential
- Business
- Wholesale

Details of revenues by type of customer are as follows:

	<u>2018</u>	<u>2017</u>
Residential	463,354	416,465
Business		
SOHOs	80,842	76,396
SMEs	35,889	32,709
Large accounts	73,151	61,443
Wholesale and other	<u>38,399</u>	<u>35,185</u>
Total	<u>691,635</u>	<u>622,198</u>
Work performed by the entity and capitalised	(16,377)	(12,399)
Other operating income	<u>(616)</u>	<u>(524)</u>
Revenues	<u>674,642</u>	<u>609,275</u>

Residential

The Group offers customers in this category a combination of fixed-line and mobile telecommunication services, as well as other added-value services which it renders through its fibre optic network and the virtual mobile operator agreement. These customers receive combined offers of broadband access, Pay TV and fixed-line and mobile telephone services which are invoiced as a bundle at competitive prices.

Business

Customers in this category - SOHOs, SMEs and large accounts, including the public sector - also receive fixed-line and mobile telecommunication services. In the case of SMEs and large accounts, our sales team is able to offer integrated, tailor-made services to financial institutions, large companies, healthcare providers and public entities.

- **SOHOs:** We have a specific commercial package for these types of customers, which include businesses with less than 10 employees. The services we provide include technical support, online support and electronic mail. As in the residential segment, we offer a wide range of combined packages such as broadband access, Pay TV and fixed-line and mobile telephone.
- **SMEs:** We offer a broad array of solutions adapted to businesses with between 10 and 40 employees. Our services include broadband access with speeds of up to 350 Mbps, symmetrical fibre access with speeds of up to 1 Gbps, MPLS access, fixed-line/mobile convergence, IP Switch and advanced IT services.
- **Large accounts:** Our large accounts include public sector customers and large companies. Large accounts require technically complex solutions that demand tailor-made responses, including fibre access with speeds of up to 1 Gbps, MPLS access, fixed-line/mobile convergence, IP Switch, cloud firewalls and virtual data centres. We offer these types of services through a dedicated sales team that includes engineers who participate in the life cycle of the project (pre-sales, implementation and after sales service).

Wholesale market and others

We offer communication services including line access, and voice and data services to other operators in the telecommunications sector which use our infrastructure and installations for providing services to their customers. Part of the revenues generated in the wholesale market come from the Group's main direct competitors, to which we provide services such as SDH (Synchronous Digital Hierarchy) line access, Ethernet and Dark Fibre technologies, voice services (which allow distributors to complete the termination of calls originating or ending in our territory) and enabling services, which are based on our BSS networks and mobile backhaul network. We also offer services related to the placement and resale of voice services. Finally, as a result of the agreements with the Catalonia Automobile Association (RACC) we offer mobile telephone services in this region under the brand "RACC M6vil".

13.2. Supplies

Details are as follows:

	<u>2018</u>	<u>2017</u>
Merchandise used		
Purchases	33,457	22,946
Changes in inventories	(1,835)	465
	<u>31,622</u>	<u>23,411</u>
Subcontracted work		
Interconnection expenses	92,773	84,740
Other supplies	35,207	24,722
	<u>127,980</u>	<u>109,463</u>
	<u>159,602</u>	<u>132,874</u>

Interconnection expenses includes discounts for certain services rendered by third parties, for an amount of Euros 41,310 thousand (Euros 30,710 thousand in the comparative period). These discounts rely on the fulfilment of a certain minimum cumulative consumption until 30 June 2022. The contractual changes negotiated during 2018, including the one-year extension, have led to a significant increase in the consumption that may be subject to discount, and have also improved our competitive conditions in the market.

The amount of the discounts pending collection is Euros 48,059 thousand (Euros 29,168 thousand at 31 December 2017) and they are recorded under Trade and other payables in the consolidated balance sheet.

Discounts are calculated on the basis of the Group's estimates of future consumption, based on the business plan approved by the Board of Directors of Euskaltel, S.A. Management has prepared a sensitivity analysis for the accrued discount based on changes of $\pm 5\%$ of the expected consumption subject to discount, and this analysis has not yielded significant changes (impact of less than +/- Euros 200 thousand).

13.3. Personnel expenses

Details are as follows:

	<u>2018</u>	<u>2017</u>
Salaries and wages	36,265	34,221
Employee benefits expense (other employee benefits expense)	<u>9,582</u>	<u>8,231</u>
Total	<u><u>45,847</u></u>	<u><u>42,452</u></u>

The average headcount, distributed by category, is as follows:

	<u>2018</u>	<u>2017</u>
Senior management	39	38
Management	47	50
Other professionals	<u>613</u>	<u>541</u>
	<u><u>699</u></u>	<u><u>629</u></u>

The distribution by gender of the Company's headcount at 31 December 2018 and 2017 is as follows:

	<u>2018</u>			<u>2017</u>		
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
Senior management	33	7	40	34	8	42
Management	31	15	46	35	15	50
Other professionals	<u>345</u>	<u>266</u>	<u>611</u>	<u>362</u>	<u>285</u>	<u>647</u>
	<u><u>409</u></u>	<u><u>288</u></u>	<u><u>697</u></u>	<u><u>431</u></u>	<u><u>308</u></u>	<u><u>739</u></u>

The average number of Group employees with disabilities of 33% or greater during 2018 and 2017 was three people.

At the date these annual accounts were authorised for issue, the board of directors of the Company was comprised of 9 men and 3 women (9 men and 3 women at the end of the prior year).

13.4. Other operating expenses

Details are as follows:

	<u>2018</u>	<u>2017</u>
Advertising	12,651	11,497
Repairs and maintenance	59,209	52,799
Services provided by third parties	37,108	38,512
Other external services and utilities	22,608	21,708
Tax	13,796	12,390
Losses, impairment and changes in trade provisions (note 8.2)	4,373	3,072
Impairment losses and disposals of fixed assets (notes 6 and 7)	8,919	6,678
Other profit/(loss)	<u>11,787</u>	<u>20,243</u>
	<u>170,451</u>	<u>166,899</u>

Losses on the disposal and derecognition of assets basically relate to the intangible assets associated with interruptions in commercial relationships with customers before the initially expected amortization period had elapsed and total Euros 8,241 thousand (Euros 5,364 thousand in 2017).

Other profit/(loss) at 31 December 2018 includes Euros 3,567 thousand relating to indemnities, Euros 1,692 thousand for incentive plans, Euros 1,631 thousand for contributions to the Euskaltel Foundation and integration costs totalling Euros 1,261 thousand. Other profit/(loss) at 31 December 2017 includes Euros 4,719 thousand relating to the CRTVE fee for 2016, expenses totalling Euros 5,565 thousand for advisory services relating to the acquisition of Parselaya, S.L. described in Note 1 and indemnities totalling Euros 5,861 thousand.

13.5. Net finance income/(cost)

Details are as follows:

	<u>2018</u>	<u>2017</u>
Finance income		
Third parties	231	228
Finance cost		
Payables at amortised cost	<u>(48,758)</u>	<u>(48,006)</u>
	(48,527)	(47,778)
Exchange gains / (losses)	316	265
Change in fair value of financial instruments	(354)	(976)
Impairment and gains/(losses) on disposal of financial instruments	<u>371</u>	<u>(392)</u>
	<u>(48,194)</u>	<u>(48,881)</u>

Note 14.- Commitments

14.1. Sale and purchase commitments

At each reporting date, the Group has the following purchase commitments, all relating to current operations and expected to be carried out in the following year:

	<u>2018</u>	<u>2017</u>
Intangible assets	1,275	950
Property, plant and equipment	17,064	14,441
Inventories	<u>3,337</u>	<u>4,793</u>
	<u><u>21,676</u></u>	<u><u>20,184</u></u>

14.2. Operating lease commitments and other associated commitments

The Group has contracts for releasing surplus fibre optic capacity, for pipeline access and for the use of spaces for locating nodes. The Group has also entered into fibre optic maintenance lease contracts.

Payment commitments in relation to these contracts are as follows:

	<u>2018</u>	<u>2017</u>
Less than one year	6,770	4,711
One to five years	25,135	20,109
Over five years	<u>17,826</u>	<u>19,224</u>
	<u><u>49,731</u></u>	<u><u>44,044</u></u>

The operating lease expense recognised in the income statement for the period ended 31 December 2018 amounts to Euros 11,413 thousand (Euros 12,814 thousand for the same period in 2017).

NOTE 15.- Related party transactions

15.1. Transactions and balances with key personnel

Details of transactions with key Company personnel are as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Board members</u>	<u>Senior management</u>	<u>Board members</u>	<u>Senior management</u>
Salaries and wages	1,061	2,606	1,038	2,146
Other remuneration	1,722	2,505	1,445	1,513
	<u><u>2,783</u></u>	<u><u>5,111</u></u>	<u><u>2,483</u></u>	<u><u>3,659</u></u>

Other remuneration includes indemnities amounting to Euros 1,158 thousand (Euros 571 thousand in 2017). The Company has no pension or life insurance obligations with current or former board members, or with other members of senior management.

Civil liability insurance premiums paid by the Group to cover damages that could arise from actions or omissions in the performing of duties amounted to Euros 42 thousand.

15.2. Transactions and balances with other related parties

Details of transactions and balances with significant shareholders are as follows:

	<u>2018</u>	<u>2017</u>
Sales	11,981	16,221
Services	(230)	(544)
Finance income	-	27
Finance cost	<u>(5,390)</u>	<u>(9,476)</u>
	<u>6,361</u>	<u>5,621</u>

Details of outstanding collections and payments related to transactions with significant shareholders are as follows:

	<u>31.12.18</u>		<u>31.12.17</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Receivables	664	-	3	-
Cash and cash equivalents	68,234	-	29,752	-
Loans received (note 11)	(11,250)	(165,267)	(6,750)	(171,250)
Payables	<u>(763)</u>	<u>-</u>	<u>(866)</u>	<u>-</u>
	<u>56,885</u>	<u>(165,267)</u>	<u>22,139</u>	<u>(171,250)</u>

The directors of the Parent have not carried out any transactions other than ordinary business or applying terms that differ from market conditions with the Parent or any other Group company.

15.3. Conflicts of interest

At the 2018 reporting date no member of the Company's board of directors or their related parties, as defined in the Spanish Companies Act, has disclosed any direct or indirect conflict of interest with the Company, with the exception of director Robert W. Samuelson, who has expressly informed the Company that he is in a situation of conflict of interest.

NOTE 16.- Other information

The firm auditing the Group's annual accounts (KPMG Auditores, S.L.) has invoiced the following net fees for professional services during the years ended 31 December 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Audit services	229	244
Other assurance services	45	57
Other services	<u>15</u>	<u>4</u>
	<u>289</u>	<u>305</u>

Other assurance services include those relating to limited reviews.

In 2017 other firms affiliated with KPMG International invoiced the Group for professional service fees and expenses totalling Euros 108 thousand.

NOTE 17.- Environmental information

The Group considers the environmental impact of its products and the network through which it renders its services right from the design stage, and seeks to minimise this impact through efficient and effective ways of promoting responsible use.

Since 1999 Euskaltel has had an Environmental Management System which complies with European Regulation 1221/2009 (EMAS III) and the UNE-EN ISO 14001: 2015. As a result of this commitment to excellence in environmental management, the Company has had its Management System certified and its Environmental Impact Declaration for 2017 validated by a recognised independent party, in accordance with EMAS regulation.

The Euskaltel Group has drawn up an environmental framework for 2017-2019 that sets out the strategy, programmes and initiatives to be implemented and developed for managing environmental impact, in line with the Basque Country, Galicia and Asturias local plans (Agenda 2030).

The Company, committed to the fight against climate change, prepared a 2018 energy efficiency plan to reduce greenhouse gas emissions. The Company has also broadened this commitment by calculating its carbon footprint based on ISO 14064 guidelines and its greenhouse gas emissions for 2017. As part of its transparency undertaking, since 2015, Euskaltel has been entered on the Carbon Footprint Registry of the Ministry of Agriculture, Food and the Environment.

In 2018, within the context of the 2017-2019 Environmental Framework, the following environmental milestones stand out:

- Renewal of Euskaltel's Environmental Management System certification in accordance with ISO 14001:2015, by a certified third party (AENOR) as renewed annually since 1999.
- Expansion of the Environmental Management System, as per ISO 14001:2015 by a certified third party (AENOR) to R and Telecable.
- Certification of Telecable's Energy Management System in accordance with ISO 50001: 2011 by a certified third party (AENOR).
- Validation of the EMAS Environmental Impact Declaration by a certified third party (AENOR), as validated since 2004. Based on this, Euskaltel, R and Telecable's inclusion in the EU Eco-Management and Audit Scheme (EMAS) has been renewed.
- Registration on the Carbon Footprint Registry of the Ministry of Agriculture, Food and the Environment.
- Calculation process to determine the Ecological Footprint of the Organisation, a pioneering process in the corporate field, carried out in the framework of our membership of the Basque Ecodesign Center and our collaboration with Ihobe and its external communication at the Basque Ecodesign Meeting held in Bilbao in September 2017.
- Reporting actions carried out by these three group companies as part of the initiative #Por el Clima. Through this commitment the group companies have committed to reducing their polluting actions that cause climate change and to form part of the #PorElClima Community, which is a pioneering initiative between individuals, companies, organisations and government agencies with a common objective: to be protagonists in the fight against climate change in accordance with the guidelines established by the Paris Agreement.

This permanent search for environmental excellence led the 2017 shareholders' general meeting of the Euskatel Group to include for the first time environmental measures in its design and organisation, which was recognised by the Erronka Garbia certification granted by the Basque government. This award is intended to raise the awareness of attendees and event organizers of the negative impacts associated with large events so that they may be modified and held with the lowest possible impact on the environment. This commitment has been renewed in 2018 and it now includes the Euskal Encounter initiative.

NOTE 18.- Guarantees

The Group has to submit certain guarantees as part of its everyday commercial activity, for concession and spectrum tenders derived from legal obligations through its participation in the development of the telecommunications sector, for network deployment licences from government bodies, and to comply with its long-term contractual obligations with service providers.

The Group has extended guarantees to safeguard the working conditions of employees hired by the companies with which the agreements were reached to outsource certain services that in prior years were rendered in-house.

As a result of the Group's financing, pledges on certain assets have been extended (see note 11).

The Group does not estimate that the guarantees extended would give rise to any additional liabilities in the financial statements.

NOTE 19.- Subsequent events

On 31 October 2018, the Company's Board of Directors agreed to pay an interim dividend against 2018 results for a gross amount of 14.0 cents (Euros 0.140) per share outstanding with dividend rights (which amounts to a maximum dividend of Euros 25 million). This interim dividend, totalling Euros 25 million, was paid to shareholders on 7 February 2019.



Directors' Report for 2018

Euskaltel, S.A. and consolidated companies

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

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(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

1.- Introduction

Euskaltel, S.A. (hereinafter Euskaltel) was incorporated with limited liability under the Spanish Companies Act on 3 July 1995. Its statutory activity consists of the installation, management, development, execution, operation and marketing and sale of telecommunications networks and services in accordance with prevailing legislation, as well as the marketing and sale of goods required to carry out these services.

The Company was created by the Basque Government and three savings banks (BBK, Kutxa and Vital) in 1995 to become the Basque Country's alternative telecommunications operator and, thus, bring an end to Telefónica's monopoly over the sector.

On 1 July 2015 the Company's shares were admitted to trading on the Barcelona, Bilbao, Madrid and Valencia stock exchanges.

All of the shares in R Cable y Telecomunicaciones Galicia, S.A. (hereinafter R Cable) were acquired on 27 November 2015. This company was incorporated in A Coruña on 1 August 1994.

On 26 July 2017 Euskaltel acquired all of the shares in Telecable de Asturias, S.A.U. (hereinafter Telecable), which was incorporated in Oviedo on 29 December 1994.

The primary business of both R Cable and Telecable consists of the rendering in Galicia and Asturias of services similar to those carried out by the Company, thereby creating a new, leading telecommunications group in the North of Spain.

The increase in size and scale will enable the new group to gain buying and negotiating power, thereby boosting competitiveness.

The Euskaltel Group offers its services to a market of 6 million people (The Basque Country, Galicia and Asturias). The expansion into other neighbouring regions, beginning with Navarre and further planning our expansion into León, Cantabria and La Rioja, will mean having access to more than one million new homes. Euskaltel, R and Telecable are leaders in optic fibre (broadband, phones, Pay TV and convergent telecommunications services) in the Basque Country, Galicia and Asturias, respectively, with a solid customer base and complementary business models. A mobile phone operator with its own 4G licence in the Basque Country, Galicia and Asturias, it has the largest proprietary fibre optic network in place on the market, serving more than 770,000 residential and business customers.

2.- Business overview

Residential segment

The Euskaltel Group is a telecommunications group operating in the north of Spain with over 4.3 million homes passed, half of them thanks to the agreement reached with Orange Spain as part of its expansion project, 658 thousand residential customers, 97 thousand business customers and 15 thousand companies. We also reached an agreement with RACC in Catalonia to market our products and services among its members under the brand RACCTel+.

The Euskaltel Group offers its residential customers a combination of fixed-line and mobile telecommunication services, as well as other added-value services, which it mainly renders through its fibre optic network and the Virtual Mobile Network Operator Agreements with Orange España and Telefónica de España (the "MVNO Agreements").

A summary of the main services rendered to residential customers is as follows:

- Bundles: The Euskaltel Group offers its customers the option to subscribe to a range of services in bundles comprising multiple services (high-speed broadband, Pay TV, fixed-line and mobile telephone) at competitive prices. There are two, three and four-service bundles available: double play or 2P, triple play or 3P and quadruple play or 4P. In line with market trends and our own marketing efforts, focusing on cross-selling across the existing customer base, there has been an increase in sales of triple play and quadruple play bundles with significant customer base growth and new subscribers in these segments. As a result, 81.4% of residential customers subscribed to one of the below bundles at 31 December 2018: 11.7% to 2P (12.5% in 2017), 22.9% to 3P (26.3% in 2017) and 46.8% to 4P (41.7% in 2017).

The products that integrate the different bundles are broken down as follows:

- Broadband: The Euskaltel Group is the leading high-speed broadband service provider in the Basque Country, Asturias and Galicia. The fully invested next generation fibre-optic network enables the company to offer different products at ultra high-speeds of up to 500 Mbps, which cannot be equalled by its DSL rivals. At 31 December 2018, the Euskaltel Group offers broadband services to 497,135 residential customers, of which over 99% have high-speed broadband (speeds of 30 Mbps or more).
- Pay TV: The Euskaltel Group is the leading Pay TV service provider in the Basque Country, Asturias and Galicia (jointly with Telefónica). A wide selection of digital TV programming, including basic and premium bundles, and also Everywhere TV (sold under the "Edonon", "Tedi" and "TV comigo" brand), functionalities of VoD and PVR. The company offers access to premium content with the most popular local offering. At 31 December 2018, the company offers Pay TV services to 416,718 residential customers.
- Mobile phones: The Euskaltel Group is the fastest-growing and leading mobile phone service provider in the Basque Country, Asturias and Galicia. At 31 December 2018, the Euskaltel Group offers mobile phone services to 549,955 residential customers. It also provides services to 82,508 customers whose only product is mobile phones.
- Fixed-line phones: The Euskaltel Group is the leading fixed-line service provider in the Basque Country, Asturias and Galicia (with the second highest market share, behind Telefónica). The company offers fixed-line services with unlimited national calls to fixed-lines and a wide range of price plans for fixed-line to mobile calls and fixed-line to international numbers.

Business segment

Details of the main services rendered to business customers, by business size, are as follows:

- SOHOs: The Euskaltel Group has a specific product offering for small office/home office customers (less than ten employees), which includes premium tech support, web hosting and e-mail services. Euskaltel has a dedicated outsourced sales force and recently launched an online sales platform for SOHOs. At 31 December 2018, the Euskaltel Group provides services to 97,002 customers in this segment.

- **SMEs:** The Euskaltel Group offers a range of solutions for medium-sized businesses (from 10 to 40 employees) with relatively high tech needs. These services include broadband access with speeds of up to 500 Mbps, symmetrical fibre access with speeds of up to 1 Gbps, MPLS Network, fixed-line/mobile convergence (FMC), IP Switch and advanced IT services. At 31 December 2018, Euskaltel provides services to 13,053 customers in this segment.
- **Large Businesses:** the Euskaltel Group's Large Account customer base includes both public entities and large corporations. The headquarters of these companies are chiefly based in the Basque Country, Asturias and Galicia and a portion of the Large Account customers also do business outside their home regions. Large Accounts have technically complex requirements and the company designs tailor-made solutions based on each customer's specific needs. These include symmetrical fibre access with speeds of up to 1 Gbps, FMC, SIP Trunking, MPLS networks, cloud firewalls and virtual data centres.

Wholesale and Other revenue

- The Euskaltel Group renders communications services to wholesale clients (most of whom are telecommunications companies in direct competition with the Euskaltel Group) including leased lines, data and voice services using Euskaltel's installations and infrastructures to render services to their customers. The Euskaltel Group renders Leased Lines services in SDH line access, Ethernet and Dark Fibre technologies, Voice Services (which allow distributors to complete calls to end users originating or ending in the Issuer's territory) and enabling services which are based on Euskaltel's BSS network and Mobile Core Network.
- By virtue of its distribution agreement with RACC, Euskaltel also offers mobile services in Catalonia under the "RACC Telefonía Móvil" brand.

Euskaltel also offers mobile enabler and systems enabler services as well as placement and resale of voice services.

3.- Corporate structure

The companies that, along with Euskaltel, S.A., comprise the Euskaltel Group, and the percentage ownership of the Parent in each (direct and/or indirect) at 31 December 2018 are as follows: R Cable y Telecomunicaciones Galicia, S.A.U. (100%), Telecable de Asturias, S.A.U.(100%) and EKT Cable y Telecomunicaciones, S.A.U. (100%).

Within the process of consolidation as a telecommunications group operating in the markets of the Basque Country, Galicia and Asturias, the Euskaltel Group is defining an organisation structure that aims at achieving excellence and competitiveness in its key markets. Euskaltel, R and Telecable are adapting their structure to further drive growth and customer focus, developing communication solutions for corporate and individual clients, maximising synergies and boosting the Group's results while retaining their commitment to and autonomy in Galicia, Asturias and the Basque Country.

With this aim, the organisational structure of the Group bolsters several key strategic lines of the Company:

- On the one hand, strengthening proximity to the customer, maintaining the local roots of the brands in the Basque Country, Galicia and Asturias markets, strengthening Euskaltel, R and Telecable business unit autonomy, with responsibility over operations, and guaranteeing close customer monitoring, service and care. The new structure also places greater focus on the business segment in the three markets.
- On the other hand, supporting areas that strengthen the Group's path of growth in the Basque Country, Galicia and Asturias by maintaining the Corporate Marketing and Innovation areas for the development and implementation of specific communication solutions for businesses and individuals, the launch of new products, and pursuing technological alliances in the ICT field.

- At the same time, the organisational structure aims to maximise operating efficiencies, retaining the corporate Economic-Financial, Technology, Information Systems and Human Resources departments. These cross-sectional areas ensure agility, homogeneity and flexibility in decision-making, leading the Group's teams in the Basque Country, Galicia and Asturias.

4.- Board of directors

The Board of Directors of Euskaltel is authorised to adopt agreements on all matters that are not allocated by law or the statutes to the General Meeting.

Thus, it is central to the Board's mission to approve the Company's strategy and secure the organisation necessary to put it into practice, and to supervise and verify that senior management meets the objectives set and respects the registered activity and corporate interests of the Company.

For these purposes, the full Board of Directors reserves the authority to approve the Company's general policies and strategies and, in particular, (i) the strategic or business plan and the management and annual budgetary targets; (ii) the investment and financing policy; (iii) the definition of the corporate group structure; (iv) the corporate governance policy; (v) the corporate social responsibility policy; (vi) the risk control and management policy, including tax liabilities and management, as well as the regular monitoring of internal information and control systems; (vii) the dividends policy, the own portfolio policy and, particularly, its limits.

The Board of Directors has the broadest powers to administer and represent the Company. Without prejudice to the above, the Board of Directors may entrust to senior management and to delegated governing bodies the management and day-to-day administration, as well as the dissemination, coordination and general implementation of the Company's policies and guidelines, in order to focus on the definition, supervision and monitoring of the general policies, strategies and guidelines to be followed by the Company and its Group.

Those powers that are legally or statutorily reserved for the exclusive knowledge of the Board shall not be delegated.

Without prejudice to any legal powers of delegation or proxy held for the execution of specific agreements entered into, the Board shall directly exercise the following competences and powers by its own initiative or at the proposal of the corresponding internal body:

A) In terms of the General Meeting of Shareholders:

- a) Calling General Shareholders' Meetings and publishing the corresponding notices.
- b) Proposing modifications to the articles of association of the Company to the General Shareholders' Meeting.
- c) Proposing to the General Shareholders' Meeting any modifications to the Board Regulations, accompanying the proposal with the corresponding explanatory report.

- d) Submitting to the General Shareholders' Meeting a proposal to transform the Company into a holding company by means of "subsidiarisation" or by transferring core activities carried out by the Company to subsidiaries, even if full domain over these is retained.
- e) Submitting to the General Shareholders' Meeting proposed acquisitions or disposals of key operating assets, in accordance with the presumption contained in article 160 of the Spanish Companies Act.
- f) Proposing to the General Shareholders' Meeting the approval of transactions that would be equivalent to winding up the Company.
- g) Raising proposals to the General Shareholders' Meeting regarding the appointment, ratification or re-election of non-independent board members, following a report from the Appointments and Remuneration Committee, or termination of board members.
- h) Executing the agreements approved by the General Shareholders' Meeting and carrying out any functions entrusted thereto by same.

B) In terms of the organisation of the Board of Directors and delegation of powers:

- a) Approving and modifying this Regulation, following a report from the Audit and Control Committee.
- b) Defining the structure of general powers to be granted by the Board of Directors or the delegated governing bodies.

C) In terms of information to be disclosed by the Company:

- a) Managing the disclosure of information from the Company to the shareholders, the competent authorities, the markets and the general public in line with criteria of equality, transparency and accuracy.
- b) Drawing up the annual accounts, directors' report and proposed distribution of results as well as the consolidated annual accounts and consolidated directors' report, if any, for presentation to the General Shareholders' Meeting.
- c) Approving the financial information to be regularly disclosed by the Company due to its status as a public company.

D) In terms of board members and senior management:

- a) Appointing and renewing offices within the Board of Directors and the members and internal offices of the Board committees.
- b) Appointing board members by co-opting.
- c) Appointing and relieving board members, as well giving preliminary approval for contracts to be entered into between the Company and the board members to whom executive powers are attributed, detailing remuneration for said executive functions.

- d) Approving remunerations for each board member, based on proposals from the Appointments and Remunerations Committee, in accordance with the remunerations policy approved by the General Shareholders' Meeting.
- e) Approving the definition and modification of the Company's organisation chart, appointing an relieving senior management (as set forth in article 2), and setting the compensation or termination benefits applicable in the event of dismissal.
- f) Approving the remuneration policy for senior management posts and the basic conditions of their contracts, based on any proposals made by the CEO and following reports from the Appointments and Remunerations Committee.
- g) Regulating, analysing and ruling on any conflicts of interest and transactions linking the Company to its shareholders, board members and senior management staff, or persons connected to them.
- h) Authorising or waiving obligations deriving from the duty of loyalty, in accordance with prevailing legislation.

E) In terms of other duties:

- a) Formulating the dividends policy and the corresponding proposed agreements to the General Shareholders' Meeting on the distribution of results and other forms of remuneration for shareholders, and agreeing on the payment of interim dividends, if any.
- b) Acknowledging merger or demerger operations, concentration or global assignment of assets and liabilities affecting any of the Group's key companies.
- c) Approving investments, divestments or any type of operation that, due to its significant amount or special characteristics, may be strategic or entail special tax liability, unless its approval corresponds to the General Shareholders' Meeting.
- d) Creating or acquiring shareholdings in special purpose entities or entities domiciled in countries or territories considered to be tax havens, as well as any other similar transaction or operation which, owing to its complexity, could undermine the group's transparency.
- e) Approving related-party transactions that are defined by prevailing legislation, subject to a report by the Audit and Control Committee.
- f) Issuing an opinion on all public takeover bids made on securities issued by the Company.
- g) Executing the Company's own portfolio policy within the framework of the authorisation of the General Shareholders Meeting.
- h) Drawing up the Company's Annual Corporate Governance Report and the annual sustainability report, as well as the annual report on the Directors' remuneration policy.
- i) Ruling on proposals submitted by the Chairperson of the Board of Directors, the CEO or, if applicable the general manager or Board of Directors' committees.

j) Issuing an opinion on any other matter that falls under its remit and the Board of Directors itself considers of interest to the Company, or that the Regulations reserve for the full Board.

The Board of Directors shall always carry out its functions pursuant to the interests of the Company, i.e. the common interest of all the shareholders of an independent publicly-held company, aiming to fulfil its statutory activity in accordance with prevailing legislation.

When undertaking its functions, the Board of Directors shall be guided by the interests of the company and act with unity of purpose and independence of criteria. Furthermore, the Board will take into consideration legitimate public or private interests that affect the performance of the business activity and, particularly, those of the different stakeholders, the communities and regions in which the Company operates and its workforce. In this context, consideration will be given to the sustained maximisation of the Company's economic value and its positive outcome in the long term, as a shared interest of all the shareholders and, therefore, as the guiding criteria at all times for the Board of Director's actions and those of its delegated bodies, internal committees and members.

The Board of Directors of Euskaltel is made up of 12 Board members (2 executive members, 4 proprietary and 6 independent).

The CEO has been delegated all the powers of the Board of Directors, other than those that cannot be delegated for legal or statutory reasons, or the power to guarantee third parties.

The Board of Directors entrusts to the President, the CEO and the Management Team the management and day-to-day administration, as well as the dissemination, coordination and general implementation of the Company's policies and guidelines, in order to focus on the definition, supervision and monitoring of the general policies, strategies and guidelines to be followed by the Company and its Group.

Moreover, within the Board of Directors three Committees have been set up:

- Audit and Control Committee
- Appointments and Remuneration Committee
- Strategy Committee

None of these three committees has executive functions but rather act as information and consultation bodies, authorised to inform, advise and make proposals within their scope of action. Their actions are governed by the Company's Articles of Association as well as the Committees' own internal regulations (Audit and Control Committee Regulations, Appointments and Remunerations Committee Regulations and Strategy Committee Regulations).

Their main task is to assist, inform and raise proposals to the Board of Directors on matters assigned to them by the Articles of Association, Board Regulations or their own Regulations.

Audit and Control Committee

This Committee's basic responsibilities fall into the following areas:

- (i) internal and external auditing
- (ii) information and risk management systems
- (iii) compliance and good governance

Without prejudice to the tasks that may be assigned at any time by the Board of Directors and attributed thereto by the applicable standards, the Committee has, at a minimum, the following basic functions:

- (i) To inform the Board of Directors on issues raised by shareholders in matters within their remit.
- (ii) To supervise the efficiency of the Company's and its Group's internal control, as well as its risk management systems, including tax-related.
- (iii) To analyse with the external auditors any potentially significant weaknesses in the internal control system detected during the course of the audit.
- (iv) To supervise the process of drawing up and reporting regulated financial information.
- (v) To propose to the Board of Directors, for submission to the General Shareholders' Meeting, appointments, re-election or replacement of the external auditors in accordance with applicable standards, as well as the conditions of their contracting, and regularly gather from them information on the audit plan and its execution, in addition to preserving their independence in the performance of their functions.
- (vi) To supervise the Company's internal auditing activity.
- (vii) To establish an appropriate relationship with the external auditors to receive information on issues that may jeopardise their independence, for examination by the Committee, and any other matters relating with the auditing procedures, as well as other reporting obligations set forth in auditing legislation and standards. In any event, the Committee shall receive from the external auditors annual confirmation of their independence with regard to the Company or any directly or indirectly-related entities, as well as information on additional services of any kind rendered by the audit firm or persons or entities connected thereto, in accordance with auditing legislation.
- (viii) To issue an annual report, in advance of the issuance of the auditor's report on the annual accounts, expressing an opinion on the independence of the external auditors and summarising the Committee's activities. This report shall issue an opinion, in any event, on the rendering of the additional services referred to in the previous section, taken individually or as a whole, other than legal auditing and in relation to the regime of independence or the regulatory standards of the audit.
- (ix) To report, in advance, to the Board of Directors on any matters governed by law, the Articles of Association and the Board of Directors Regulations, particularly with regard to: (i) the financial information the Company must report periodically; (ii) the creation or acquisition of shareholdings in special purpose entities or entities domiciled in countries or territories considered to be tax havens; (iii) related party transactions and (iv) the economic conditions and economic impact of any structural or corporative modifications planned by the Company and, particularly, for the exchange ratio of the proposal.

Appointments and Remunerations Committee

Without prejudice to the tasks that may be assigned at any time by the Board of Directors, the Appointments and Remunerations Committee has the following basic functions:

- (i) To assess the necessary responsibilities, knowledge and experience in the Board of Directors. For these purposes, it shall define the functions and skills necessary in candidates for vacancies and assess the time and dedication needed to effectively perform their tasks.

- (ii) To set a target for gender balance on the Board of Directors and draw up guidelines on how to reach this target.
- (iii) To raise to the Board of Directors the proposed independent director appointments for designation by co-option or for their submission to the General Shareholders' Meeting, as well as proposals for re-election or dismissal of these directors by the General Shareholders' Meeting.
- (iv) To inform the proposed appointment of the remaining board members for designation by co-option or for their submission to the General Shareholders' Meeting, as well as proposals for their re-election or dismissal by the General Shareholders' Meeting.
- (v) To inform the proposed appointment or dismissal of senior management and the basic conditions of their contracts.
- (vi) To examine and organise the succession of the chair of the board and the Company's CEO and, if applicable, propose candidates for the Board of Directors in order that succession be conducted in an orderly, planned fashion.

To propose to the Board of Directors the remunerations policy for directors and general management or senior management posts reporting directly to the Board, executive committee members or board members, as well as the individual remuneration and other contractual conditions of executive directors, ensuring their compliance.

Strategy Committee

Notwithstanding any other tasks that may be assigned at any given moment by the Board of Directors and the duties and authority that lie with the Audit and Control Committee and the Appointments and Remunerations Committee, the Strategy Committee will fulfil the following basic duties:

- (i) Assess and propose to the Board of Directors strategic company business diversification strategies based on the business sector, foreseeable development, the applicable legislative framework and the Company's resources, capacities and potential for development and growth.
- (ii) Provide the Board of Directors with the opportunity to make new investments, preparing investment alternatives in assets that represent a long-term increase in the value of the Company.
- (iii) Analyse and propose recommendations or improvements to the strategic plans provided to the Board of Directors in light of the Company's competitive position.
- (iv) Prepare and provide the Board of Directors with an annual report containing proposals, evaluations, studies and work performed by the Strategy Committee with respect to the aforementioned areas.

5.- Shareholder structure

Euskaltel is listed on the Madrid, Barcelona, Bilbao and Valencia stock markets since 2015 and its current share capital is represented by 178,645,360 shares with a par value of Euros 3 each, forming a single share category. Share capital is subscribed and fully paid.

The main shareholders of Euskaltel at 31 December 2018 are as follows:

Shareholder	% capital
Kutxabank Group	20.11%
Zegona Group	15.00%
Corporación Financiera Alba, S.A.	11.00%

6.- Macroeconomic and industrial climate

Macroeconomic environment

In 2018 (based on official data for the third quarter of 2018), the Spanish economy continues to show the signs of strength shown in the previous year. However, a decline in the expected contribution of the external sector and the adjustment of growth forecasts in the first quarter compared to actual growth recorded have led to a reduction in forecasts for both 2018 and 2019. Global economic prospects have tended to deteriorate.

Firstly, in the eurozone we have seen a significant slowdown in the German, Italian, and UK economies and the failure to reach an understanding between the Italian government and the EU authorities in a context of high debt, all of which is keeping the markets on tenterhooks. Emerging markets are experiencing significant turbulence, such as Argentina and Turkey where the economies are in the midst of financial crises. Lastly, protectionist threats are one of the main causes of the slowdown in the European economy and may continue to weigh on the outlook for the forthcoming quarters.

On the domestic market, the saving rate seems to have bottomed out, which leaves little room for families to increase their consumer spending above disposable income. This is despite the wage agreement and pension increases made, which were not enough to turn the drop in consumer spending around.

Despite these factors, the economy is expected to continue to grow at rates of over 2% and above the Spanish average. The internal forces that led to its recovery remain ongoing, such as debt reduction in the private sector, external surplus, restored competitiveness in terms of production costs, and a sound financial sector.

The ECB's monetary policy will also support expansion, which, despite the progressive withdrawal of economic stimuli, will enable interest rates to be kept low throughout the forecast period.

In terms of tax policy, no significant changes are expected which could affect the path of growth. Both inflation and the labour market are expected to continue along the same lines, with inflation remaining steady at around 1.7% in 2018 and 1.5% in 2019, and the labour market performing somewhat less vigorously, but still strong enough to reduce the unemployment rate in both 2018 and 2019 to 13.9%.

The main risks to the fulfilment of this scenario are:

- The situation of the emerging markets.
- The trade war between the US and China.
- The high level of indebtedness of the economy at a global level.
- Possible "bubbles" that may exist in certain financial markets.
- The rise of anti-European populism.

These risks, together with the high level of structural deficit and public debt, would not leave room to develop a countercyclical tax policy.

Spain's economic growth rate in 2017 was 3.0% (source: INE), and it is expected to be 2.5% in 2018 (source: Funcas) and 2.1% in 2019 (Funcas' economic forecast for Spain). The consensus outlook for 2018 is for 2.6% growth (source: Funcas' forecasting panel) and 2.2% for 2019 (source: Funcas).

The Basque Country has experienced many of the same recent economic trends as the rest of Spain. The main risks set out for Spain affect the industrial fabric and therefore the Basque Country, as evidenced by the considerable drop-off in incoming orders from double digits in the second half of 2017 to 1.9% in the latest recorded period. The economy is expected to slow down, with GDP growing 2.9% in 2017 (source: Eustat) and up to 2.8% in 2018 (source: Basque Government and Caja Laboral) or even 3.3% (source: Funcas as of November 2018) or 2.5% (according to Ceprede, Hispalink or BBVA). A slight deceleration process has begun over the year, far below what was originally forecast, but still holding back growth forecasts for 2018 to between 2.3% (Basque government) and 2.7% (source: Funcas and BBVA). Domestic demand constitutes the main driving force of the Basque economy. Household spending will benefit from the expansion of the labour market and the wage increase. On the other side of the scale is a possible hike in petrol prices and the fact that demand retained during the crisis has already been met. With regard to the unemployment rate, outlook has improved slightly with the rate estimated to level off at 10.2% for 2018 and drop to 9.6% on average in 2019.

These economic trends are also seen in Galicia, but with certain specific characteristics. Its GDP growth rate in 2017 was 3.1% (source: INE), but it may potentially reach 3.1% in 2018, also slowing down in 2019 to between 2.2% (source: Hispalink), 2.4% (source: Funcas) or 2.8% (source: Ceprede). There has been an acceleration in the growth of industrial activity in Galicia, according to the industrial production index (IPI) and Social Security affiliations, which up to August 2018 were growing at higher rates than last year. The momentum largely comes from exports, with the textile, energy and motor sectors as the main driving force. There has been a slowdown in the services sector. In terms of the employment market, there has been an increase of 2.7% in Social Security contributions, although this is still lower than the rise at national level (+3.9%).

Asturias recorded 3.5% growth in 2017 and is expected to grow at 2.5% in 2018 (source: Funcas), much lower than the growth outlook for the Basque Country or Galicia. The outlook for 2019 ranges between 1.9% according to Funcas, 2.6% according to Hispalink and 2.9% according to Ceprede. Industrial activity in Asturias has seen a slowdown, after the progress made last year thanks to exports of non-ferrous metals. Exports have slowed down this year, partly offset by exports of iron and steel. Public expenditure has dropped, which may have had somewhat of an impact on GDP development. This is the Spanish region which has recorded the lowest growth in employment. Up to September, Social Security affiliations increased by 1.4%. Together with La Rioja, Asturias is one of the only regions that has not reached pre-crisis levels in 2019. The average annual unemployment rate comes in at 13.85% in 2018 and 11.8% in 2019.

Industrial Environment

The Spanish telecommunications market has been greatly transformed over the past few years in order to adjust to technological developments, demand for higher capacity on both fixed and mobile networks and a complicated macroeconomic environment which, since 2016, has started to show signs of continuous improvement. The main trends that impacted the market are the following:

- Pressure on convergence The market has been characterised by a rapid transition towards convergence of fixed-line and mobile services, with operators bundling services such as broadband, Pay TV, mobile and fixed-line telephony services into integrated offerings. In October 2012, Telefónica introduced heavily-discounted convergent offerings under the quadruple-play offer commercially known as “Fusión”. As a result, prices in the market dropped significantly with a rapid shift to convergence as other operators followed Telefónica's example. The proportion of the market represented by 3P/4P bundles at the end of 2013 was 31.2%, 48.4% at the end of 2015, and has increased to 53.5% in 2016 and 56.8% in 2017 (source: CNMC yearly reports).
- Consolidation: During recent years, the Spanish market has been characterised by a pronounced consolidation process. Vodafone acquired Ono (July 2014); Telefónica, which had previously taken over Tuenti (August 2010), acquired DTS (Canal+) (May 2015); Orange, which had previously taken over Simyo (December 2012), acquired Jazztel (July 2015); Euskaltel acquired R Cable (November 2015) and Telecable (July 2017), and MásMóvil, which had previously taken over Quantum, Embou, Neo, Youmobile and Happy Móvil, acquired Pepephone in 2016 (September 2016) and Yoigo (October 2016). The process has continued in 2018: Orange acquired República Móvil (November 2018) and MásMóvil acquired Lebara Móvil (November 2018) while other integration moves are being observed among the smaller local cable operators present in Spain.
- Price increase: The decrease in the number of operators has generally favoured more rational competitive behaviour making various price rises possible in exchange for improvements in the services rendered during 2018. The CPI for communications in 2018 remained positive and was higher than the general CPI. The year-on-year rate for December is 2.28% compared to the general CPI at 1.18% and the annual average was 2.24%, compared to the average general CPI of 1.67% (source: INE).
- Investment efforts in NGA networks (4G in mobile, Docsis 3.0 and FTTH): Another consequence of the reduction in the number of operators is enhanced investment in infrastructures, in many cases shared among several operators to ensure profitability. In addition to the FTTH infrastructure sharing agreements between Orange and Vodafone (2013), the agreement between Orange and Vodafone to share the deployment of the 4G networks (2015), the agreement to assign Jazztel assets to MásMóvil (2015) and the agreement covering the joint deployment of FTTH networks between MásMóvil and Orange (2016), expanded to share locations and access by MásMóvil to Orange's FTTH networks (2016), in 2017 an agreement was reached covering Vodafone access to Telefónica's FTTH network (March 2017) and another was reached between Orange and Euskaltel (November 2017) to share FTTH infrastructure. Also, an extension of the agreement between MásMóvil and Orange (February 2018) and a further agreement between MásMóvil and Vodafone (September 2018) were reached. As a result of these investment efforts, Docsis 3.0 technology has become widespread in cable operator networks and significant progress has been made in the deployment of FTTH networks, enabling Spain to become the leader among the top European economies in NGA broadband network coverage: ranked first in FTTH and second in Docsis 3.0 cable.

The State Secretariat for Telecommunications and the Information Society (SETSI) has not yet published the 2018 Broadband coverage report, although the main operators have provided the deployment data. Telefónica reported as of September 2018 deployment to nearly 20.8 million properties, Vodafone reported 21.5 million properties, MásMóvil 14.5 million, Orange 13.3 million and the Euskaltel Group 2.3 million properties connected as of 2018.

- **Importance of high-speed internet:** Spain is one of the largest broadband markets in Europe, with 14.76 million broadband subscribers as of October 2018, compared to 14.23 million broadband subscribers as of 31 October 2017 (source: CNMC). In terms of high-speed broadband access (lines capable of at least 30 Mbps), the level of penetration of the Spanish market has seen growth in recent years, with fibre, including cable and FTTH, representing 71.86% of the Spanish market in October 2018 (compared to 62.0% the year before), and FTTH increasing considerably between 2012 and 2018, from 2.9% in December 2012 to 55.8% in October 2017 of Spanish fixed-line broadband subscribers (source: CNMC).
- **Importance of TV:** With the growth of service convergence, TV has consolidated itself as the key factor for securing customers. According to a survey carried out by the CNMC among homes with internet access during the second quarter of 2017, only 22.5% used these platforms to watch online pay TV. A year later, use of paid online TV streaming platforms (TV OTT) is 33.7%, i.e. 11.2% more than a year ago. By platform, Yomvi (Movistar+ for devices), with 12.6% in the second quarter of 2017 compared to 13.4% in the second quarter of 2018, is the most viewed, followed by Netflix (7.3% in the second quarter of 2017 compared to 12.5% in the second quarter of 2018). Trailing behind these is Vodafone TV On Line with 5.8% in the second quarter of 2018. In the last two household surveys (fourth quarter of 2017 and second quarter of 2018), pay TV customers were asked their main reason for buying pay TV and the following criteria were established: firstly, that it is offered by their telecommunications operator jointly with other services (29.9% in both surveys); secondly, interest in sports content offered by the operator (21.7% in the fourth quarter of 2017, compared to 18.2% in the second quarter of 2018), and third in line of importance was interest in certain TV series channels (15.1% in the fourth quarter of 2017 compared to 11.9% in the second quarter of 2018).

Industry revenue in Spain increased by 3.3% (1.8% retail revenue) during the first half of 2018 compared with the same period last year (source: CNMC). Changes have also been observed among the main players as a result of the consolidation. For example, Orange exceeded Vodafone in revenue during the second quarter of 2016 in Spain and remained ahead during the following nine quarters up until 3Q18 (the latest quarter for which information had been published by operators at the date of this report).

7.-Commercial activity and customer relations

Residential market

During the year ended 31 December 2018 we continued our strategy of directing our new and existing customer bases towards convergent bundles with the highest added value. In 2018, we have continued to renew the convergent product offering, resulting in improvements, especially in the mobile phone and TV services. Flexibility is what distinguishes our convergent product, allowing customers to configure their services according to their needs. This strategy has brought our portfolio of customers on 3P or 4P contracts to 69.7% of the total at year end, compared to 68% for these high added-value customers at the 2017 close. The Euskaltel Group ended the year with 658,172 residential customers, in line with the prior year.

The strong performance of the mobile segment is mainly thanks to a broad offering with different voice and data volumes, the 'Family Mas' rate and the 'Tarifa R' rate, the option to buy terminals and pay in instalments or the mobile phone insurance offering.

In the case of fixed-line phone customers who have also contracted a mobile service, the increase was 5.3% to reach 81% of customers (compared to 77% in 2017). Overall, we have seen an increase in bill-pay mobile lines from 914,668 in 2017 to 957,967 in 2018.

In the other driving force of convergent growth, Pay TV, the offering was improved with better content, improved functionalities, a better user interface, the consolidation of Everywhere TV, and an increase in video library content and the launch of the 4K service. Pay TV products are up 5.9% from 393,356 in 2017 to 416,718 in 2018.

Broadband products reached 497,135, representing 1.7% growth.

As a result of all of the above, the Product/Customer ratio in 2018 remained stable at 3.6 products per customer.

At the same time, the ARPU of our fixed-line customers has slightly decreased by Euros 0.06 (down 0.1%) during the year to Euros 59.93 in 2018.

Business Market

The Large Accounts segment has performed well in 2018, with income up by 5.2% compared to the previous year.

In 2018 we have managed to add value to our expansion strategy beyond Telecommunications. Thus, Cloud services, Security, SaaS and Digital Transformation initiatives have enabled us to develop new projects alongside our customers, who continue to choose us not just as their telecommunications provider but also as their technological partner to carry out their ICT and Digital Transformation modernisation processes.

At the end of 2018 significant new contracts have been secured in the Government field. These new contracts will help us to sustain growth in this market segment.

2018 has been a year of communicating intensively with our main clients, through different formats (working breakfasts, on-site client workshops and technological brainstorming open days). These sessions have enabled us to directly convey our positioning and show them how we can help them bolster their business. We have continued to reinforce the message that our capabilities now go beyond Telecommunications. With a practical approach based on sharing our success stories, we have continued to generate new business opportunities.

In the area of new solutions for Large Accounts, in 2018 we have started up the following projects, which are significant due to their innovation and replicability:

- Disaster Recovery as a Service: the first clients benefiting from the replication of their information systems among the Group's different data centres. In this manner, companies are protected from new types of risks as they can operate their systems from any data centre in Coruña, Oviedo or Bilbao.

- Smart City: with verticals for interior and exterior energy control, as well as Smart parking solutions for the Government bodies.
- Production improvements with IoT and Big Data: we have continued to develop our value proposal not just in terms of discourse but of the platforms that enable us to offer these types of solutions. We have secured significant projects that will enable us to position ourselves at the forefront of these types of solutions for businesses.
- Microsoft Office 365 and Azure: we focus on the commercialisation of both solutions, emphasising the importance of collaboration tools in the cloud as the backbone of changes in companies' process and work methods. In the case of Azure, the first clients with a message that complements our offering of own storage solutions towards a hybrid model customised to the customer's needs.

In the sales area, we have continued the transformation process, adapting the organisation, profiles and skill base of our teams to the strategic challenge of the expansion.

In addition, at the end of 2018 we have further specialised the teams into client acquisition or client portfolio, which will enable us to place a greater focus on acquiring new Large Accounts in 2019.

As regards the SME segment, 2018 has proven to be a turning point. After a period of decline in SME segment clients and revenue, this year has seen the number of clients hold its own (-67 compared to -500 in 2017) and income remain steady (+0.1%).

The product work started in 2017 has led to a first trend turnaround in this segment.

In 2018 we incorporated bundled Telco solutions for all possible access scenarios. In this way, the Euskaltel Group can offer SMEs their Telecommunications services on its own DOCSIS and FTTH network and on the Movistar FTTH NEBA network and the Orange FTTH network.

This capability, which has been significantly bolstered during 2018, will enable us to continue improving the business coming from this segment in 2019, by taking the activity of Small and Medium Businesses into account in the Euskaltel Group's Expansion plans.

In 2018, we have begun working on new sales channel models, seeking agreements with partners that provide added value to our Cloud products. In this way, we can offer SMEs turnkey solutions to accompany them in their transition to the cloud, an unstoppable trend that is increasingly accepted and valued by small and medium-sized businesses.

In 2018, we have launched managed WiFi services, with a value proposal wherein we cater for all the service elements (access points, installation and management) and we include both the equipment and the installation and services in a single monthly payment, thereby removing the usual entry barrier in this type of project.

We have also included Office365 as a productivity tool in our sales proposal for this segment.

We are set to kick off 2019 with a new segmentation which was put in place in December, dividing the SMEs segment into Small Businesses and Medium-sized Businesses, in order to better manage the duality between quantity and quality within the SME segment, where we can find anything from small offices with 4 or 5 staff to businesses that require consultative sales processes very similar to those of large companies.

The Soho segment has responded positively to our strategy of maximising 3P and 4P offerings. Thus, the number of client businesses with 3P and 4P products has increased from 58.7% to 61.7%. However, the total number of Soho customers at 31 December 2018 stands at 97,002, which is 0.4% less than the prior year.

The number of contracts for products taken on by companies has decreased by 1.3% to 349,028 products.

ARPU grew Euros 0.80 (a 1.2% rise).

The increased ARPU was driven by higher bundling, reaching a ratio of 3.6 products per customer in 2018, compared to 3.5 in 2017, and Telecable's contribution to the Group's average ARPU by offering football in the HORECA segment.

It has been a complicated year for the business segment, with tough competition both in the telemarketing format and in on-site teams.

Measures have already been put in place to reinforce sales redress the situation in 2019.

The most positive note of the year has been the development of a set of new services which has meant we have kicked off 2019 with a renewed business offering. The services specifically developed for the Business segment are:

- Business Module: service bundle including IP fax, preferential maintenance and domestic calls between customer landlines and mobiles.
- Pro WiFi: a professional WiFi solution with access point which enhances coverage and the simultaneous connection capabilities of standard WiFi.
- Office 365: two specific modalities of Office 365 for Business.
- Multi-device security: Panda software multi-device protection for fixed equipment and mobile terminals.
- 30llos/Euskaltel Life Negocios: business version of the IoT solution for private customers, enhanced with a continuous camera recording system.

These services enable us to provide an outstanding offering for businesses, reaching our customers and the market, positioning us as a benchmark operator in solutions for this segment.

Furthermore, we are improving the offering with new internet access speeds of 500 Mbps and 1Gbps and reinforcing the data volume included in the premium mobile tariffs up to 100GB.

8.- Marketing activity

In 2018, the Euskaltel Group has continued to build an emotional link with the customer by launching new even more personalised products and services, aiming to cater to the top user wants, both in the home and mobile.

In addition to providing high quality services, the products and services designed and developed in the Euskaltel Group have met our customers' real needs, meeting their demands, creating proximity with them and a level of customisation that makes it possible for us to force a strong and lasting relationship.

We have reinforced our value proposal by focusing on the following pillars:

WiFi 360

In view of the importance and universality of the WiFi service both in and outside the home, throughout 2018 the Euskaltel Group has developed new functionalities and improvements with the aim of offering a comprehensive WiFi service.

- WiFi Home and SOS WiFi

Through its WiFi Home and SOS WiFi services, the Group offers its customers a audit of the WiFi service in all new customer premises, enabling the WiFi service in the home to be enhanced and to incorporate new, improved equipment, a highlight of which is the introduction of MESH technology.

- 3ollosR/Euskaltel Life

Broadening the IoT functionalities, the Euskaltel Group has incorporated new elements into the service, such as heating system controls and continuous recording. Similarly, the Group has launched a geolocation and mobile alert service, which permits easy non-intrusive location detection for all customers.

- Voice assistant

In 2018 the Group has begun developing its voice assistant. This will, on the one hand, enhance apps with the incorporation of a voice interface and, on the other hand, enable the creation of new products that will change the way we interact with services such as TV.

- WiFi Vacaciones and Internet Conmigo

In 2018, improvements have also been made to the "WiFi Vacaciones" service in Euskaltel and the "Internet Conmigo" service in R, adding on 2 free 15GB data bundles for key customers, compared to the 5GB offered previously.

Fixed and mobile services

- New convergent offer

Throughout 2018 work has been undertaken to launch in the three territories a new convergent offer adapted to the market and the customers' needs. The joint offering comprises a bundle of services, benefits, contents and specific equipment aimed at meeting user needs and thereby boosting their satisfaction and loyalty to the brand. Euskaltel launched this in December and it will be rolled out in the three territories throughout the first quarter of 2019.

- Unlimited bundles

During the summer of 2018 Euskaltel and R launched the new unlimited mobile data bundles, providing access to certain contents, depending on the package purchased, without consuming the data in the tariff: Whatsapp and unlimited Social Networks, Unlimited music, Unlimited video and Unlimited weekends.

- International bundles

In 2018 a new international call bundle offer has been launched, for calls from landlines and mobiles, aimed at catering for the segment of customers that need to make frequent calls abroad.

Other services

- Telecable T-Ayud@

In July a technical support service was launched for residential customers, including a 24-hour incident resolution guarantee, annual WiFi service check, configuration and maintenance of equipment, advice and recommendations for optimum use of Telecable services and free technical service call-outs.

- Promotions for students

Once again this year, R and Telecable have launched simple no tie-in offers, adapted to the characteristics of the student user sector, bringing them a low-cost high-speed service.

- Improved 4G Roaming service

EU roaming was added into the national customer tariff in 2017. To improve the 4G roaming service, since the summer of 2018 customers of the three brands have been able to enjoy 4G technology while travelling abroad (to areas where 4G is available).

New Internet projects

- Docsis 3.1

As leader in broadband services, the Euskaltel Group has been using this new technology in almost all of the Group's plant since late 2018. This equipment constitutes a huge step forward in the evolution of services in terms of functionalities and efficiency of broadband internet access.

New alliances

- Agreement with Microsoft

The Euskaltel Group and Microsoft have reached a strategic agreement aimed at promoting digital transformation of client businesses and the Company's internal digitalisation. The Euskaltel Group strives to bring its customers all the opportunities that technology offers to enhance its competitiveness and get the most from the potential of a technological and innovative ecosystem, with services that guarantee a fast, secure and effective response to market changes, while guaranteeing availability, efficiency and quality, regardless of the size of the organisation.

New TV content agreements

- Netflix

The Euskaltel Group has integrated the Netflix app into its 4K decoders, making it the first operator in Spain to incorporate direct access to Netflix from its remote controls and enabling this service to be integrated into operator-customer billing.

- Football in Galicia and Navarre

An agreement has been reached with LaLiga to incorporate the LaLiga 123 TV channel in Galicia and Navarre. This channel broadcasts 24-hour football content with 10 live fixtures broadcast per 2nd Division match day.

- Unification TV listings

Work has been undertaken to unify the contracts with content suppliers in order to align the content offered across the three brands and obtain savings.

Development of TV services

- Android TV

The Euskaltel Group closes out the year with over 83K Android TV decoders in the field, making it the benchmark operator on the national Android TV market. It has also worked in collaboration with the suppliers Technicolor and Sagemcom to enable the decoders to be sold across the entire Euskaltel Group, with the advantage of non-dependency on a sole supplier.

- Equipment integration

All the Euskaltel Group decoders have been integrated in all networks and technologies (IPTX, DVBT, SVBC, OTT), enabling the Group to face the challenges of expansion.

To conclude, we continued our strategy of directing our new and existing customer bases towards convergent bundles with the highest added value, having achieved:

- the percentage of households with speeds of over 50 Megas increased from 85% to 96%
- Bring the percentage of postpaid mobile lines with 4G data from 74% to 90%. The increase in mobile penetration exceeds 80%.
- The penetration rate in 2018 of 4P-convergent bundles exceeds 51% and the number of mobile lines per customer also increased to 1.88 lines.

9.- Operations Activity (Network and Technology)

During 2018, network integration has been one of the main activities, particularly the unification of mobile cores in Galicia and the Basque Country, IP voice services, IP core and its DWDM links, etc.

The Group's commitment to improving the user experience of its customers has called for a significant number of projects both entailing the improvement of platform services (TV manager, WiFi community controller, etc.), as well as end customer equipment. In order to manage and act proactively on improving the user experience, a system has been developed for gathering customer data and subsequently analysing this (Big Data + analytics).

Special efforts have also been made to expand both in our local territories (Galicia, Asturias and the Basque Country), supporting the rolling out of the FTTH own network, and in other regions, such as Navarre, Cantabria, Catalonia, León and La Rioja, based on third-party networks.

A description of the most significant activities carried out within each technological area, would include the following notable items:

1. TV PLATFORM

- Functional evolution of our android 4K decoder for cable TV services and IPTV by Euskatel and R.
- Integration of a second alternative android 4K decoder for the Group.
- Implementation of the on-demand TV back and a common orchestrator.
- Integration of Netflix (with Carrier billing) and Prime Video to Euskatel Group's 4k decoders

2. MOBILE NETWORK

- Development and improvement of mobile phone services in Asturias, particularly the roaming service.
- Orange service coverage improvement projects were executed in Galicia, the Basque Country and Navarre.
- We have now completed implementation of HLRs in the Basque Country.

3. LANDLINE VOICE NETWORK

- The Centrex, SIPTrunk, IP connection and IN ZAPI platform services were migrated to IMS.
- The recording service has been developed.
- The VoLTE service concept (Voice over LTE) on the IMA platform was analyzed and tested.

4. DOCSIS NETWORK

- The extension of the Docsis network capacity in Galicia and the Basque Country was executed in 2016 to enable the extensions needed due to the increased speed of cable products and the growing customer base.

5. IP/MPLS CORE NETWORK

- The cores in Galicia and the Basque Country have been expanded to support the increase in traffic.

6. WI-FI NETWORK

- The Group continues to increase Wi-Fi coverage as a tool for offloading traffic from the host and increasing customer loyalty.
- Wi-Fi services for companies have been further improved.
- An analysis has been performed on services such as Wi-Fi Calling or Voice over Wi-Fi, allowing voice traffic to be offloaded, thereby reducing the costs incurred with the mobile host operator.

7. RADIO NETWORK

- The growing need for broadband services in environments where the physical carrier (fiber optics) is not available has led to a push in the market to develop products that allow those capacities to be attained using new frequency bands (band E) or more efficient mechanisms (beam-forming, more efficient modulations, MIMO, etc.).

8. FTTH GPON NETWORK

- New FTTH products have been developed on our own network and on third-party networks. Served customers
- Technical execution of the mutual agreement with Orange. Joint definition and official approval of the technical solution with Orange.
- Definition and official approval of services (Internet, data, voice and TV) over company FTTH for residential and business customers.

9. DATA CENTRE

- A new data centre has been installed in Oviedo to offer convergent services (computing, storage, backup, SDN).
- New SDWAN solutions have been developed.

10. SECURITY PLATFORMS AND SERVICES

- The SOC (Security Operations Centre) service has been implemented for the Galicia and Basque Country network.
- Security audits have been performed on the ISP&DC and data network.

11. CUSTOMER TERMINAL APPROVAL

- Official approval of integrated and ordinary ONTs, advanced and neutral routers. Particularly after ZTE's veto, alternative solutions (Nokia) have been urgently implemented.
- Unified official approval for the group of mobile devices, eliminating the external supplier.

12. FIXED NETWORK DEPLOYMENT

Industrial parks

Galicia - 81 Industrial parks - Government

Project to deploy FTTH-GPON, subsidised by the regional government of Galicia, to a total of 81 industrial parks to be executed between 2016-2018. The project was completed in October 2018.

Basque Country - 216 Industrial parks - SPRI

Programme subsidised by the Basque Government to install NGA networks in industrial parks, grouped into 52 batches in the Basque Country between 2017-2018 (May).

Residential

Minetur 40FTTH project

Completion of project to deploy FTTH-GPON with grants from the Ministry for NGA networks. This represents a deployment in 173 core areas which will be executed in 2017-2018.

Project 51 K

Completion of project to deploy 5500 UIs within the K Minetur FTTH . Project to be executed in 2017-2018 with grants from the ministry.

13. SECURITY

- Implementing SOC
- Defining and implementing Security in the new systems map
- Obtaining ENS and ISO 27001 certifications

10.- R&D&i activity

The Group's innovation activities in 2018 were carried out in a unified manner, and therefore there are no differences between the activities carried out by Euskatel, R and Telecable. The 3 units share a single pool of initiatives and projects, consisting of the following:

- Support of innovative entrepreneurship and the creation of an open innovation framework.
- Innovation in user interfaces.
- Innovation in TV services.
- Innovation in IoT services.
- New range of products designed for Industry 4.0.

Support of innovative entrepreneurship and the creation of an open innovation framework.

This area comprises 2 main groups of projects.

- *Support for innovative entrepreneurship.*

Project Euskaltel Startups, Startups R and Startups T, launched in July, has been developed. Thanks to these projects, more than 70 startups have been able to make their products and services known in the group, also allowing the Group to purchase telecommunications services and equipment for new developments. Alliances have been created with over 10 business accelerators to continue to broaden the project's footprint in the years to come.

- *Supporting open innovation frameworks*

The Group has participated in several open innovation initiatives, where the Group has presented the community with a number of business challenges in the hope that proposals for improvement in each area will be received.

Innovation in user interfaces.

This area includes several technological innovation projects to add new user interfaces for customers that are based on voice recognition, the automatic identification of situations and the automation of rules. The aim is to increase the degree of self-service, automatically detect faults and allow customers to interact with friendly, automatic interfaces, if desired.

Integrations between Company products and several technological alternatives have been developed with respect to voice recognition, as well as the infrastructure that is necessary to automatically supply the front-end with important customer events.

TV innovation

2018 has seen the incorporation of the Telecable network to our platform as well as the opening of the STB ecosystem to several vendors. The most relevant innovation project in 2018 meant incorporating Netflix and Amazon Prime video to the 4K decoder. Also, a number of interesting features have been added, including the "continue watching" feature, filters and advanced searches.

IoT (Internet Of Things) - residential and business

In 2018 a platform to enable a large range of services based on the Internet of Things concept on the residential market has been further developed. The product includes several important sensors: door, camera, environment, thermostat, smoke, vehicle monitoring and mobile device.

Based on the platform introduced in 2017, the group will also be able to develop alliances with other platforms offering SVAs for the home from the cloud, either of a technological nature or to accompany home automation. Moreover, the IoT residential platform is also valid for the SOHO market and certain types of SMEs, and a number of projects have been developed during the past year.

Business services: Industry 4.0

In 2018 the new Industry 4.0 platform was launched onto the market. It allows a new range of products associated with telecommunications using the application of sensors in industrial environments and Big Data. Thanks to this platform, small and medium-sized companies may start to store their data securely, progressively developing analytical services that will allow them to improve their business processes.

11.- Human Resources Activity

The Organizational, HR and Quality Management Plan is completely aligned with the Company's strategic objectives and covers the following lines of action:

Design a model aimed at driving development, generating commitment and retaining the talent of our professionals.

Our desire is for employees to enjoy their jobs and to feel empowered when performing their professional activities. We have therefore launched the TalenTU2019 Programme, which is intended to increase the level of employee engagement through the design of a professional development map.

In 2017 we launched the Leadership Programme 2019, which identified the skills that an Euskaltel Group leader must have.

During 2018, a new training itinerary for the leaders of the Euskaltel Group has been rolled out. This training has focused on fostering a transformative leadership style.

We will also continue to recruit new talent, especially among young people, who continue to be a determining factor for the Group and we also intend to drive engagement through the employer brand.

We must therefore support their personal fulfilment, satisfy their professional concerns, and provide the motivation that allows them to use all of their skills and talent.

During 2017 a total of 30,081 hours' training was given, corresponding to 294 training initiatives.

We maintain our collaboration with different education institutions, universities, occupational training centres, etc., taking interns on practical work experience schemes, mainly telecommunications engineering students and trainee web development and multi-platform specialists. During 2018, we accepted 43 students for work practice.

Also, a new professional development itinerary was defined through a number of career plans.

Drive a shared, collaborative and digital organisational culture that identifies us as a Group and differentiates us from others.

All Euskaltel Group employees have a number of well defined Values which lay the foundations upon which the Group's activities are carried out.

These values reflect the identity of the three converging brands, which share our proximity to customers, our honesty with all stakeholders, the search for improved services through innovation and agility in processes.

Compliance with these values is essential, as the behaviour of our people is distinctive and adds a key value to our stakeholders.

One of our main objectives is ensuring that the interests of employees are aligned with the interests of the Company and that they share the same values.

During 2018, a Leadership Model was promoted within the TalenTU programme, aimed at ensuring that the Group's leaders acquire the skills necessary to promote the new organisational culture, such as our capacity for transformation.

We have launched a project to encourage collaboration between employees and teams by strengthening the use of digital collaborative tools.

2018 has been a key year for promoting our new digital culture in the Group, integrating new digital tools for professionals such as the following:

- new portable equipment,
- new smartphones
- Office 365 implementation, which allows and encourages teamwork online
- Fitting out 30 meeting rooms with video-conferencing equipment

These new tools enable the Group to encourage mobility and teamwork.

Operate more efficiently in order to access information from any location and at any time by digitalising key HR processes and job roles.

We have launched a project to digitalise the HR management processes that is allowing employees maximum self-management with respect to their relationship with HR, while simultaneously increasing the efficiency of processes and the reporting of information to the Company.

One of the key advances in 2018 meant setting up a single Employee Portal for all the Group's professionals, where they can manage and consult their absences, holidays, professional details, remuneration and performance assessment, among other aspects.

The portal allows both employees and managers to carry out a number of procedures online.

This programme of digitising key HR processes will continue in 2019.

Integration of persons with functional diversity

Euskaltel complies with Spanish Law 13/1982 of 7 April (Integration of Persons with Disabilities), through the creation of direct employment and the creation of jobs in special work centres that work with people with functional diversity. Specifically, in 2018 we have contracted out reception, mail room and telephone-answering services to two Special Work Centres, representing over Euros 452,000/year, and we have employed one person directly through a temp agency.

We continue to develop the Family plan (Plan Familia) and the Emergence plan (Plan Aflora) among Euskaltel staff. The first of these is an economic aid scheme for employees with disabled family members to participate in workplace integration programmes and leisure activities. The Aflora plan is designed to bring to the fore unrecognised disabilities in people already employed by Euskaltel and during 2018 no employees were identified to have an unrecognised disability.

Working environment

Our working environment is one of the most relevant factors for the employees of the Euskaltel Group. We promote initiatives that foster a good working environment, such as flexible working hours at the workplace, internal mobility and job rotation, as well as informing employees about internal vacancies.

12.- Organisation and quality activity

Organisation

Throughout 2018 there were relevant changes in the organisational structure.

The changes were due to the search for operational excellence and improving the Group's competitiveness. We focused on continuing to grow the business, strengthening customer focus and developing new solutions and products for the business and personal markets while maximizing synergies deriving from the entry of Telecable into the Group and increasing the Company's results, ensuring the business units remain well-rooted and independent in Galicia, Asturias and the Basque Country.

With this aim, the organisational structure of the Group bolsters several key lines within the Company strategy:

On the one hand, strengthening proximity to the customer, maintaining the local roots of the brands in the Basque Country, Galicia and Asturias markets, strengthening Euskaltel, R and Telecable business unit autonomy, with responsibility over operations, and guaranteeing close customer monitoring, service and care.

The Company has embarked on a project to transform its systems, which will represent a significant change and will allow the Company's digital transformation to be more agile. This department's key role over the coming years has led us to raise it to the Management Committee level.

During 2018 the organisational area has focused its activities on:

- Organisational Development: harmonising, updating and regularly publishing the Company's organisation chart, as a core tool for adapting systems and people management, based on the Company's organisational structure.
- Organisational Positions Manual: the Group has created the Euskaltel Group Positions Manual following the integration of R and Telecable.

The manual includes the main roles and responsibilities associated with the key position in the Group. Each professional is currently associated with a position. In addition, in 2018 a Professional Development Itinerary based on Career Plans has been created, where each position has been mapped to a specific stage of a professional career.

Quality, Environment, Health and Well-being

During 2018, Euskaltel has committed to continuing on the path to excellence and, taking as reference the Advanced Management Model, it has developed the following activities through its Quality, Environment, Health and Well-being area: Below is a breakdown by policy:

Quality

We have worked on the integration and deployment of a Quality policy at the Group's three companies and certification of the quality management system in accordance with the ISO9001:2015 standard at all companies within the Euskaltel Group.

In 2018 an Annual Quality Plan was drawn up and executed, covering all the actions needed to maintain the quality management system. It also reviewed the Quality Control Policy and the commitment to efficiency and ongoing improvement to attain quality customer services, in order to control and improve any organisational elements influencing customer satisfaction and the attainment of the Company's desired results.

Environmental issues

To develop its commitment with to environmental issues, Euskaltel has prepared an environmental strategy set out in its Environmental Steering Plan. The Euskaltel Group's commitment to environmental management excellence was the starting point for establishing an Environmental Management System in accordance with ISO 14001. 2015. Accordingly, and with the objective of always being in line with the Basque Sustainable Development Environmental Strategy (2002-2020), Euskaltel decided to join the EMAS III Regulations in 2004. The EMAS III Environmental Declaration, which is verified by AENOR and includes our Company's carbon footprint, is evidence of our commitment to transparency with our stakeholders.

In 2018, within the context of the 2017-2019 Environmental Framework, the following environmental milestones stand out:

- Renewal of Euskaltel's Environmental Management System certification in accordance with ISO 14001:2015, by a certified third party (AENOR) as renewed annually since 1999.
- Expansion of the Environmental Management System, as per ISO 14001:2015 by a certified third party (AENOR) to R and Telecable.
- Certification of Telecable's Energy Management System in accordance with ISO 50001: 2011 by a certified third party (AENOR).
- Validation of the EMAS Environmental Impact Declaration by a certified third party (AENOR), as validated since 2004. Based on this, Euskaltel, R and Telecable's inclusion in the EU Eco-Management and Audit Scheme (EMAS) has been renewed.
- Registration on the Carbon Footprint Registry of the Ministry of Agriculture, Food and the Environment.
- Calculation process to determine the Ecological Footprint of the Organisation, a pioneering process in the corporate field, carried out in the framework of our membership of the Basque Ecodesign Center and our collaboration with Ihobe and its external communication at the Basque Ecodesign Meeting held in Bilbao in September 2017.
- Reporting actions carried out by these three group companies as part of the initiative #Por el Clima. Through this commitment the group companies have committed to reducing their polluting actions that cause climate change and to form part of the #PorElClima Community, which is a pioneering initiative between individuals, companies, organisations and government agencies with a common objective: to be protagonists in the fight against climate change in accordance with the guidelines established by the Paris Agreement.

Health and Well-being

In 2018 advances continued to be made with respect to the Healthy Company Programme, particularly regarding aspects relating to the implementation of the health and safety management system.

In 2017 the Occupational Health and Safety Management System certification was renewed for Euskaltel in accordance with OHSAS 18001:2007 specifications by a recognised and accredited outside party (AENOR), and it was also extended in order for R and Telecable to be certified as well.

Information security

Information is, nowadays, one of the main assets of any company and, as such, it must be protected and the risks that can jeopardise this asset must be properly managed. With this approach, in 2018, the Information Security Management System has continued to be consolidated, with its certification, since 2012, according to the Standard UNE 27001:2014 for Information Data Security Management Systems (ISMS) across the three Group companies.

2018 highlights:

- Establishment of a risk management system for Information Security that enables risks to be ascertained and analysed, identifying threats, vulnerabilities and impacts on activity, preventing, eliminating or reducing risks by establishing appropriate controls (for this purpose we use the tools provided in the ISO 27002 standard).
- Support to identify and establish security measures that help reduce risks identified.
- Integration of information security management into the rest of the management systems implemented at the Euskaltel Group.

- Guaranteed identification and compliance of prevailing legislation in this field.
- Adding value to the Euskaltel Group's offer through confidence in data protection, enhancing the corporate image and giving external visibility to the Management System with the ISO 27001 certification.

13.- Economic-financial activity and key business indicators

Key performance indicators (KPIs)

The following tables show some of our operating and financial KPIs for the year. The most important growth driver in 2018 was the increased contracting of products by customers, which rose to 3.6 products per customer, thanks to growth in key services such as fixed broadband, TV and mobile phones.

Residential

KPI	31/12/2017	31/12/2018
Homes passed_Own deployment	2,166,001	2,187,284
Homes passed_Agreement with Orange	0	2,174,707
Total customers	660,946	658,172
<i>o/w fixed services</i>	575,354	575,664
<i>o/w mobile only subs</i>	85,592	82,508
1P (%)	19.5%	18.6%
2P (%)	12.5%	11.7%
3P (%)	26.3%	22.9%
4P (%)	41.7%	46.8%
Total RGUs	2,324,640	2,387,989
RGUs / sub	3.5	3.6
Churn rate	17.4%	17.0%
Global ARPU fixed customers	59.99	59.93

KPI	31/12/2017	31/12/2018
Fixed voice RGU's	527,908	516,169
<i>as % fixed customers</i>	91.8%	89.7%
BB RGU's	488,708	497,135
<i>as % fixed customers</i>	84.9%	86.4%
TV RGU's	393,356	416,718
<i>as % fixed customers</i>	68.4%	72.4%
Postpaid lines	914,668	957,967
Postpaid customers	529,459	549,955
<i>as % fixed customers (excl. mobile only)</i>	77.1%	81.2%
Mobile lines / customer	1.7	1.7

The deployment, relaunched in 2015, continues under way, having accelerated in 2016, 2017 and 2018, both in terms of general deployment (geared towards the Residential segment) and deployment in industrial parks (geared towards the Business segment).

In mobile communications, growth is underpinned by the strong performance and improvements in mobile telephony, the possibility of financing purchases of mobile devices and the launch of the 4G service, which have all contributed to the strong performance in this area. This is also seen in residential postpaid mobile contract customers, with an increase in products from 914,668 in 2017 to 957,967 in 2018.

In addition, the percentage of mobile customers has grown to 81.2%, i.e., 4.1 b.p. more than a year ago.

ARPU has remained largely stable, with a slight decrease of Euros 0.06 (-0.1%) in 2018. Sales policies vis-à-vis mobile telephones, higher-added value services (upgrading) and additional services to existing customers (up-selling) have helped to offset promotional efforts to retain customers in a very competitive market context, especially in the second half of the year. The number of customers with three or four products contracted rose from 68.0% in 2017 to 69.7% in 2018.

Business

KPI	31/12/2017	31/12/2018
Total customers	101,378	97,002
1P (%)	26.7%	25.7%
2P (%)	14.7%	12.6%
3P (%)	39.3%	37.9%
4P (%)	19.4%	23.8%
Total RGUs	353,641	349,028
RGUs / sub	3.5	3.6
Churn rate	22.2%	20.4%
Global ARPU fixed customers	67.04	67.84

The Group's commercial strategy in the business market is in line with that of the residential segment. The customer base growth, actions on our product offering, and our upgrading and up-selling policies have enabled the main metrics of products by customer, ARPU and Churn to remain positive (customers with 3 and 4 products increased from 58.7% in 2017 to 61.7% in 2018), increasing ARPU by Euros 0.80 compared to 2017.

Financial data

	Unit	31/12/2017	31/12/2018
Total revenues	Thousands of Euros	622,198	691,635
<i>Y-o-y change</i>	%		11.2%
Residential	Thousands of Euros	416,465	463,354
<i>Y-o-y change</i>	%		11.3%
Business	Thousands of Euros	170,548	189,881
<i>Y-o-y change</i>	%		11.3%
Wholesale and other	Thousands of Euros	35,185	38,399
<i>Y-o-y change</i>	%		9.1%
EBITDA	Thousands of Euros	306,894	336,441
<i>Y-o-y change</i>	%		9.6%
<i>Margin</i>	%	49.3%	48.6%
Capital expenditures	Thousands of Euros	(108,754)	(153,510)
<i>Y-o-y change</i>	%		41.2%
<i>% w/o total revenues</i>	%	-17.5%	-22.2%
Operating cash flow	Thousands of Euros	198,141	182,931
<i>Y-o-y change</i>	%		-7.7%
<i>% w/o EBITDA</i>	%	64.6%	54.4%
Profit/(loss) for the year	Thousands of Euros	49,621	62,821
Earnings per share		0.30	0.35
Cash flow per share		1.22	1.02

Residential revenues reflected positive performance, rising by 11.3% compared to the prior year. This is mainly the result of incorporating the 12-month revenues from 2018 for Euskaltel, R and Telecable, while in 2017 Telecable only contributed for the last 5 months of the year.

Revenue from the Business market amounted to Euros 189.9 million, up 11.3% on the prior year. As in the Residential market, this situation is mainly due to Telecable's contribution to the comparative data (12 months in 2018 versus 5 months in 2017).

Wholesale and other revenue grew by 9.1% to Euros 38.4 million, essentially as a result of the contribution made by Telecable during the final 12 months of the year.

EBITDA, which does not include the effect of non-recurring expenses nor costs related to the integration process, amounted to Euros 336.4 million in 2018, an increase of 9.6% on 2017.

Investments stood at Euros 153.5 million in the period, up Euros 44.8 million on the previous year. This increase is due to the fact that Telecable's 12-month investments have been included, as opposed to 2017 when only 5-month investments were recorded, as well as several expansion projects such as the deployment plan for 51,000 homes and industrial estates, and the extension of the network in Navarre and Castro. The execution of relevant projects has also continued, such as the Network Integration and Management Systems projects, in order to obtain synergies and efficiencies by simplifying operational activity. Finally, projects such as the repositioning of broadband speeds and 4K decoders have further developed. These projects involve technological, customer-oriented innovations allowing users to enjoy the best services and enabling the Group to increase the commercial offering and revenues in the coming years.

Operating cash flow, defined as the difference between EBITDA and investments, resulted in a conversion rate of over 54.4%, maintaining our leading position in comparison with similar sector companies in Europe. Cash flow per share was Euros 1.02 per share in 2018.

The improvement in EBITDA mentioned above, the inclusion of 12 months of Telecable's results, the effect of extraordinary expenses due to the acquisition of Telecable and other non-recurring expenses have led profit after taxes to be Euros 62.8 million in 2018, reflected in the profit per share of Euros 0.35.

14.- Financial risks

Our activities are exposed to credit risk, liquidity risk, and market risk, the latter of which includes currency and interest rate risk.

We use financial risk evaluation and mitigation methods suited to our activity and scope of operations, which are sufficient to adequately manage risks.

A summary of the main financial risks affecting us, and the measures in place to mitigate their potential affect, is as follows:

Credit risk

Credit risk is the risk of financial loss to which we are exposed in the event that a customer or counterparty to a financial instrument fails to discharge a contractual obligation. This risk is mainly concentrated in receivables.

The probability of customer credit risk materialising is mitigated by the application of different policies, and the high level of dispersion of receivables. Among the different policies and specific practices are the customer acceptance policy, continual monitoring of customer credit, which reduces the possibility of default on the main receivables, and collection management.

The impact of bad trade debts on the income statement in 2017 was Euros 4.4 million (Euros 3.1 million in 2017), equivalent to 0.6% of 2018 turnover (0.5% in 2017). Aged, non-impaired receivables past due by more than 90 days at 31 December 2018 amount to Euros 8 million (Euros 9.9 million at the end of 2017).

Liquidity risk

Liquidity risk is the risk that the we will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Our approach to managing liquidity risk is to ensure, as far as possible, that it has enough liquidity to settle its debts as they fall due, in both normal and stressed conditions, without incurring unacceptable losses or compromising its reputation.

At 31 December 2018 we had a non-current revolving credit facility of Euros 300 million, with Euros 220 million drawn down, and current undrawn credit facilities totalling Euros 49.25 million.

Cash and cash equivalents reflect the amounts available with financial institutions that have high credit ratings.

At 31 December 2018, cash and cash equivalents amounted to Euros 107.3 million (Euros 58.7 million at the end of 2017).

We adjust the maturities of our debts to our capacity to generate cash flows to settle them. To do this, we have implemented a seven-year financing plan with annual reviews and periodic analyses of our financial position, which includes long-term projections, together with daily monitoring of bank balances and transactions.

Market risk

Market risk is the risk that changes in prices could affect our revenue or the value of our financial instruments. The objective of managing market risk is to control exposure to this risk, within parameters we consider reasonable, and optimise returns.

Our scope of operations barely exposes the Group to currency or price risks, which may arise from occasional purchases in foreign currency of insignificant amounts.

Interest rate risks arises on variable-rate loans from financial institutions and related parties, which expose us to fluctuations in future cash flows. To mitigate the risk of the effect of a potential rise in interest rates, during 2017 the Company finalised agreements with certain financial institutions to hedge against increases in the Euribor, over a nominal amount of Euros 825 million, equivalent to 50% of the nominal amount drawn down on loans with financial institutions.

Since the second quarter of 2016, the Group has been settling interest on a quarterly basis, which allows it to closely monitor the performance of interest rates in the financial market.

In March 2017, Euskaltel formally implemented an issue of short-term commercial paper (EuroCommercial Paper Programme -ECP-, "the Programme"), which was registered with the Irish Stock Exchange. The overall maximum limit of the Programme totals Euros 200 million and serves as an alternative to bank financing to cover working capital requirements.

For the year ended 31 December 2018, had interest rates risen by 100 basis points, with other variables remaining constant, consolidated profit (after tax) would have fallen by Euros 8 million (Euros 7.2 million for the year ended 31 December 2017).

15.- Legal factors and regulatory framework

Euskaltel operates in a sector subject to regulation of retail and wholesale services, universal services, privacy, tariffing and network neutrality.

The rendering of services is exposed to decisions or measures that may be adopted by the Administration, as well as economic sanctions for breaches in the rendering of services.

Cost of the universal service for 2015 and 2016

On 12 December 2018 the Spanish National Market and Competition Commission (CNMC) adopted the Resolution which determines the operators liable to contribute to the National Universal Service Fund for electronic communications (FNSU) in 2015. The regulation on funding the universal service cost incurred by Telefónica de España, S.A.U. and Telefónica Telecomunicaciones Públicas, S.A.U. states that operators whose gross annual operating revenue exceeds Euros 100 million are required to contribute to the FNSU.

The amount established in the report determining the cost subject to contribution by the liable operators amounts to Euros 17,171,142. Euskaltel, R and Telecable were found liable to contribute to the funding of the cost at a rate of 2.68%.

On 12 December 2018 and 23 January 2019, the CNMC adopted resolutions determining the respective universal service cost amounts incurred by Telefónica de España, S.A.U. and Telefónica Telecomunicaciones Públicas, S.A.U. in 2016, establishing a net cost of Euros 16,788,209, to which operators whose gross annual operating revenue exceeds Euros 100 million are required to contribute. R, Telecable and Euskaltel first made contributions in 2014.

Main operator

On 14 November 2018 the CNMC passed a Resolution establishing and making public the list of operators who, for the purposes of article 34 of Royal Decree- 6/2000 of 23 June, are considered to be the main operators in the national fixed-line and mobile telephony markets.

This resolution considers Euskaltel as a main operator of fixed-line telephony in 2017, adding the share of R Cable and Telecable fixed lines.

Royal Decree 6/2000 establishes a series of limitations on the voting rights of private individuals or legal entities who, directly or indirectly, hold shares or voting rights equivalent to 3% or greater in two or more companies classified as main operators on the same market and sector, from among those listed in the following point.

Revised European telecommunications regulatory framework

EU Directive 2018/1972 of the European Parliament and of the Council was approved on 11 December 2018, establishing the European Electronic Communications Code.

The review process of the sector's regulatory framework began in May 2015 and an interim review was held in May 2017. The publication of this Code lies within the context of the review of the regulatory framework as one of the strategies for achieving the Digital Single Market (DSM).

The Directive specifies a period for adaptation to local legislation, concluding on 21 December 2020.

The main issues proposed for revision are:

- Promoting regulation of NGA networks,
- Improving use of radio frequencies,
- Modifying universal service content.

- Redefining electronic communication services (internet and personal communications with/without use of numeration) and applying standards to new online agents offering communication services without the use of numeration.
- Numbering

Additionally, with a timeline set for 31 December 2020, a mandate has been issued to the Commission to establish, via ruling of the ORECE, a maximum tariff for the termination of voice calls on fixed and mobile networks in the European Union.

To date, the CNMC has drawn up a proposal for market regulation of termination tariffs in order to establish a glide path for fixed wholesale termination pricing.

Within the 5G action plan approved by the European Commission with a target timeline of 2020, the first frequency bands 3,5-3,8 GHz have been tendered and adjudicated. Furthermore, R&D&I pilots and actions have been convened for 5G applications as an essential technology in the digital transformation of the economy.

Regulation of roaming on public mobile communication networks.

On 17 December 2018 the Official Journal of the European Union published Regulation 2018/1971, amending Regulation 2015/2120 on open internet access and the modification of the previous mobile roaming regulation in the EU.

The regulation of mobile roaming set the deadline of 15 June 2017 for the abolishment of EU roaming charges by telephone operators on calls made by customers when travelling to EU countries.

With the modification of December 2018, a retail tariff is established, regulated from 15 May 2019. Tariffs must not exceed 0.19 euros per minute for calls and 0.06 euros per SMS message.

European Data Protection Regulation and the new Data Protection Act

The period for implementing the European Data Protection Act of 14 April 2016 ended on 25 May 2018.

Implementing the obligations of this regulation has called great efforts in organisational, technical, economic and staffing terms.

In addition, supplementary to some of the requirements of this Regulation, the Spanish Data Protection and Digital Rights Act 3/2018 was approved on 5 December 2018.

This Act, among other issues, specifies penalty regime and system, sets the minimum age for accepting data consent at 14 years, reformulates the regulation of solvency information systems and that of exclusion advertising.

It also introduces a new feature in digital regulations, recognising a series of rights and obligations relating to the rendering of digital services and the increasing digitalisation of the economy and society; the right to digital security, digital education rights, the right to digital switch-off, among others.

Access to TV content

Resolution authorising Telefónica/DTS concentration.

In accordance with the resolution, dated 22 April 2015, authorising Telefónica/DTS concentration, Telefónica is obliged to offer Premium channels to wholesale customers. In principle, access to this is guaranteed for the 5-year period up to 2020 as a result of the conditions imposed in the resolution authorising concentration.

The Companies filed an appeal in May 2016 against the resolution authorising Telefónica/DTS concentration. The grounds for these appeals are that the conditions imposed do not guarantee the existence of fair competition in the access to content and specifically access to football coverage, based on the model established in the authorised conditions. Conclusions have been filed and a ruling is currently pending.

Financing of Corporación de Radio y Televisión Española (CRTVE)

On 28 June 2017, the reform of Law 8/2009 of 28 August governing the financing introduced via the law on General State Budgets entered into force, setting out the obligation upon Euskaltel, Telecable and R to contribute to the financing of CRTVE as a result of their status as electronic communications service operators (0.9% of revenues) and providers of audiovisual services (1.15% of revenues).

The payment of the contribution for 2016 has been made and an administrative appeal has been filed against the settlement decision regarding the 2016 payment with the Central Tax and Treasury Court (TEAC). On 23 January 2018 the TEAC reported the opening of the period for filing claims in this case.

In addition, in 2017 and 2018 the Euskaltel Group made the relevant payments applicable for those years.

Definition of regulatory risks

- Copyright Regulation Copyrights - management companies

In the area of televised content, copyright regulations establish a series of payment obligations on account of ownership rights to management companies.

At the date of this report, fees chargeable by management companies for public broadcasting rights and content reproduction rights are being renegotiated. This renegotiation is ongoing in accordance with the methodology of the Order published in December 2015.

- Obligations deriving from information security

The Company's network and systems carry and store large volumes of information, confidential data both pertaining to private individuals and companies, as well as personal data. The Company also renders Internet access and online storage services. Since telecommunications companies are dependent on these networks, systems and services, they face increased cybersecurity threats in this field. This can entail hacking of networks and systems or installation of viruses or malware, and thus the Company must adopt certain physical and logical security measures.

In order to transpose the Directive, Royal Decree-Law 12/2018 of 7 September on the security of networks and information systems was approved as a matter of urgency, without prejudice to its current parliamentary procedure. This regulation sets out certain obligations for digital service providers, including cloud computing.

16.- Corporate governance

a) Corporate Governance Actions

Throughout 2018, Euskaltel has carried out the following corporate governance actions:

- Change of the Board of Directors Regulation in order to clarify the scope and interpretation of article 9 (ii), relating to the maximum number of Boards to which Euskaltel Directors may belong.
- Evaluation process of the Board of Directors, with the help of an external advisor, in compliance with the provisions of Recommendation 36 of the Code of Good Governance for Listed Companies.

b) Changes in the Board of Directors

- Mr. Luis Alba Ferré has replaced Mr. Francisco Javier Allende Arias as the new Secretary of the Board of Directors and of the Committees reporting to the Board.
- Mr. Gonzalo Silveiro Regulez has replaced Mr. Javier Ruiz-Cámara Bayo as the new Vice-Secretary of the Board of Directors.

c) Changes in the Committees reporting to the Board of Directors

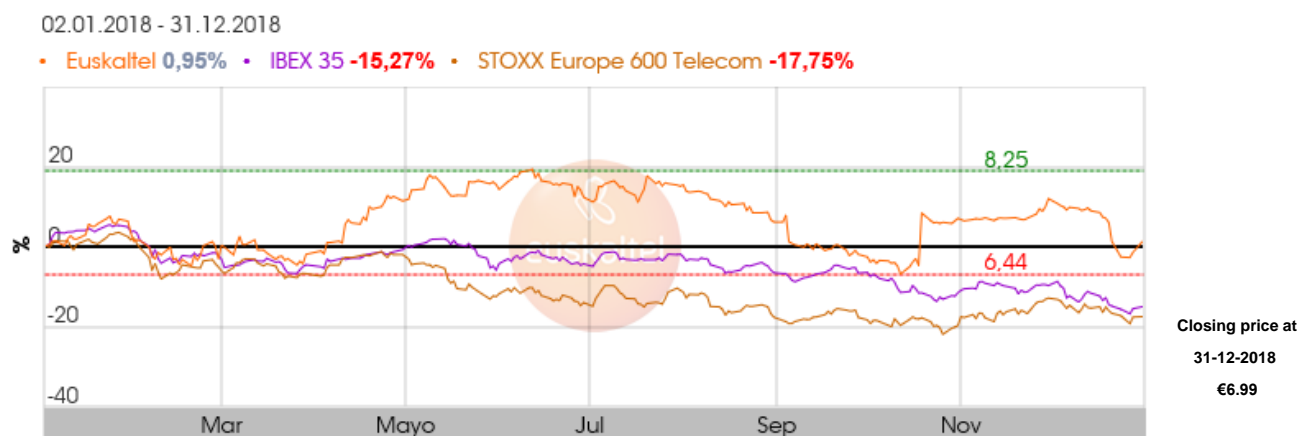
- The post of Vice-Secretary of the Committees reporting to the Board of Directors has been created, with the same functions as those attributed to the Vice-Secretary of the Board.
- The Vice-Secretary of the Board of Directors, Mr. Gonzalo Silveiro Regulez, has been appointed Vice-Secretary of the Committees reporting to the Board.

d) Significant event filings

In 2018, 25 significant events have been filed in order to report quarterly results, the transactions carried out under the liquidity contract, the renewal of the promissory note issuance programme, the calling of the Ordinary General Shareholders' Meeting and the results thereof, the appointment of the new Secretary and Vice-Secretary of the Board of Directors, the payment of the complementary dividend against 2017 results, the payment of an interim dividend against 2018 results, as well as the agreement signed with RACC in order to set up the RACCtel+ service.

17.- Share price evolution

Share price evolution



Euskaltel shares have increased in value in 2018 by +0.95%, compared to the IBEX 35 stock market index and the STOXX Europe 600 Telecom sector benchmark index for the same period, -15.27% and -17.75%, respectively.

In terms of six-monthly evolution, in the first half of 2018, the value of shares increased +12.15% whilst in the second half, the value fell by -9.04%.

Trading volume

<u>Period (2 Jan/31 Dec)</u>	<u>Share volume</u>	<u>Daily average</u>
Standard trading	66,580,853	261,101
Block trading	14,147,933	55,482
	<u>80,728,786</u>	<u>316,583</u>

18.- Outlook and events after the reporting period

Below we describe the most significant events occurred during the first weeks of 2018 up to the date of preparation of these annual accounts.

On 31 October 2018, the Company's Board of Directors agreed to pay an interim dividend against 2018 results for a gross amount of 14.0 cents (Euros 0.140) per share outstanding with dividend rights (which amounts to a maximum dividend of Euros 25 million). This interim dividend, totalling Euros 25 million, was paid to shareholders on 7 February 2019.

19.- Acquisition of own shares

At 31 December 2018 we held 227,349 own shares. During the year a total of 2,315,562 shares were acquired, and 2,353,544 were sold or delivered.

The acquisition of own shares is part of the liquidity contract that Euskaltel has signed with Norbolsa, Sociedad de Valores, S.A. (Norbolsa) to manage its own share portfolio.

Under this contract, Norbolsa will trade Euskaltel shares on the Spanish securities markets with a view to achieving the following:

a) Favour liquidity in transactions.

b) Share price stability.

20.- Definition of alternative performance measures

An explanation of the alternative performance measures used in this Directors' Report is as follows:

- EBITDA: Results from operating activities + amortisation and depreciation +/- losses on the disposal and derecognition of assets + other results. Other results, when these are included, extraordinary expenses or expenses of an exceptional nature that are not recurrent, as well as integration costs are excluded.

	31.12.2017	31.12.2018
Results from operating activities	115,224	129,881
Amortisation and depreciation	164,749	185,854
Losses on the disposal and derecognition of assets (note 13.4)	6,678	8,919
Other results (note 13.4)	20,243	11,787
	306,894	336,441

- Investments: Additions of intangible assets and property, plant and equipment

	31.12.2017	31.12.2018
Additions of intangible assets (note 6)	36,606	56,493
Additions of Property, plant and equipment (note 7)	72,148	97,017
	108,754	153,510

- Operating cash flow: EBITDA - Investments

	31.12.2017	31.12.2018
EBITDA	306,894	336,441
Investments	(108,754)	(153,510)
	198,140	182,931

- Conversion rate: Operating cash flow / EBITDA

	31.12.2017	31.12.2018
Operating cash flow	198,140	182,931
EBITDA	306,894	336,441
	64.6%	54.4%

- NFD (Net Financial Debt): nominal values payable on bank borrowings and other loans - liquid funds available at financial entities (cash and cash equivalents)

	31.12.2017	31.12.2018
Nominal value - Bank borrowings (note 11.1)	1,650,000	1,545,000
Nominal value - Bonds and other marketable securities (note 11.1)	0	70,700
Nominal value - Other borrowings with Government bodies (note 11.1)	15,086	23,667
Nominal value - Other borrowings (note 11.1)	81	48
Net debt	1,665,167	1,639,415
Less Cash and cash equivalents (Note 8)	(58,652)	(107,356)
Net financial debt	1,606,515	1,532,059

21.- Annual Corporate Governance Report

The 2018 Annual Corporate Governance Report, which forms part of the consolidated directors' report, was approved by the board of directors of Euskaltel, S.A. on 27 February 2019 and is available on the Company's website (www.euskaltel.com) and that of the Spanish National Securities Market Commission (www.cnmv.es).

22.- Non-financial information

In compliance with article 49 of the Spanish Code of Commerce, the Euskaltel Group includes the Non-Financial Information Statement for 2018 as part of the Responsible Company Report 2018, as an Appendix. This report covers the companies Euskaltel, S.A., R Cable y Telecomunicaciones Galicia, S.A. and Telecable de Asturias S.A.U., and has been prepared in accordance with the Global Reporting Initiative (GRI) standards.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Appendix

Responsible Company Report 2018 - Non-financial information statement

Driving digital transformation

—
Non-financial information statement

Responsible Company Report 2018

25/2/2019



Grupo Euskaltel

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Our commitment: create value and help to develop society



Through this letter, which leads our Responsible Company Report, we address shareholders, customers, suppliers, institutions, enterprises and, in general, all those who work with the Group and the wider society. In short, those who make the Euskaltel Group possible.

In 2018, we continued to grow and develop a corporate culture based on proximity, honesty, innovation and efficiency, corporate values that are our calling card in the Basque Country, Galicia, Asturias and the markets where the business is expanding. These values underlie our daily work as we pursue our mission to generate value by means of a comprehensive response to communication needs and improvements in business productivity, contributing towards economic and social development in each of our territories.

This cross-organisational culture makes us a benchmark for customer care, commitment and support, without losing sight of opportunities to grow and develop in new businesses and geographic markets.

We have achieved this in a scenario of digitalisation and fierce competition in the telecommunications industry in the form of ongoing improvements in the range and quality of products and services targeted at each market segment, increased speed and aggressive pay television marketing.

In the Euskaltel Group, 2018 saw huge progress in the Group's overall integration and efficiency improvements while protecting our special features in each territory and the emotional bonds to all of our brands; Euskaltel in the Basque Country, R in Galicia and Telecable in Asturias. 2018 was also a year of expansion into other neighbouring regions, beginning with Navarre and planning our expansion into León, Cantabria and La Rioja. We also reached an agreement with RACC in Catalonia to market our products and services among its members under the brand RACCtel+. By expanding our horizons in this way, our company will enter over one million new homes in 2019 and we expect these new markets to account for 8% of revenue in 2022. This expansion strategy is in line with our Strategic Plan 2017-2019, based on operational excellence, distinctive experience, diversified growth and protecting customer value.

“We will carry on working to enhance our leadership in our territories, investing to assure the best experience for customers, whether consumers or businesses, while bolstering our growth ambitions through more innovative products and services in an increasingly digital environment; expansion into new territories is gaining momentum so as to become a more competitive operator while staying focused on shareholder value”.

FRANCISCO ARTECHE
Euskaltel Group's CEO

Sustainable business growth has borne fruit, our turnover having increased considerably in the markets into which we have expanded, and we expect to have a sustainable operating cash flow above 30% of sales as from 2020. Our Business Plan to 2022 forecasts double-digit growth in dividends and a reduction in net debt to below 3.5x Ebitda.

Technological advancements in devices and software, the extension of fixed and mobile communications networks and the efficiency achieved in the industry have allowed universal access to a new digital society in which we all have a device near to us which provides access to a new world of opportunities for work, leisure, consumption... There is no doubt that digitalisation is now a pre-eminent strategic agenda item

for companies in all business sectors, both as a threat to competitiveness or business model disruption and as an opportunity.

In recent years, technology has taken giant leaps and the Euskaltel Group has witnessed and participated in this progress. Our business has evolved mainly thanks to active listening to stakeholders through close ties with our local territories, which demand more efficiency, speed, simplicity and innovation.

We are still focusing on digital development by extending infrastructures and building relevant skills in our human capital. We have launched new products and services based on new sensory, data processing or artificial intelligence technologies to be applied to Big Data, the

“The Euskaltel Group is focused on creating value for all its stakeholders and on socio-economic development: contributing creativity, creating job opportunities, generating pride in belonging and highlighting social commitment”.

ALBERTO GARCÍA ERAUZKIN
Euskaltel Grupo's Chairman

Internet of Things or Digital Homes that will improve our daily lives. We can already visualise the new generations of fixed and mobile (5G) networks that will allow greater capacity to process data, connect more devices and control them with low latency (thus assuring a real-time response). The new digital reality also offers huge transformation opportunities for our people. We have made a significant investment to digitalise our work so as to continue to offer the best service and uphold our commitment to better understand our customers. We are developing new ways of working and collaborating so as to facilitate a work-life balance and enhance work efficiency and productivity based on technology and connectivity. We believe that the first step in digital transformation must be our own processes and our daily activities, involving our professionals so as to also provide customers with an optimal service. This also answers the need to attract and retain the best talent in a society in which 35% of workers are currently millennials and want to work for organisations that put social improvement before profit making.

Our achievements in the past year include adaptation to the General Data Protection Regulation (GDPR), which is a relevant milestone in our industry. We also implemented a unified compliance model as a further step in our commitment to an ethical and responsible culture in the organisation. We continued to update the Equal Opportunities Policy across the Group. We remain committed to excellence in environmental management as part of the fight against climate change, contributing towards Sustainable Development Goals (SDGs) 12 "Responsible consumption and production" and 13 "Climate action". Through these initiatives, we are strengthening the Group's culture and aligning our business with market best practices.

Another important milestone in 2018 was the completion of our CSR Master Plan, all the proposed actions having been implemented. We are now working to develop a new plan centred on contributing to the Sustainable Development Goals through actions that seek to boost economic, so-

cial and environmental value creation, focusing particularly on SDGs 8 and 9 on economic growth and innovation, respectively, as a result of our

activities as a communications operator, and without forgetting SDG 17 on partnerships to fulfil Agenda 2030, SDG 5 regarding female leadership or SDGs 12 and 13 referred to above. This also reflects our commitment as a member of the UN Global Compact.

All this progress is attributable to a committed team and the trust shown by our shareholders and investors. The customer loyalty that ensues helps us to keep growing. Each of the people that place their trust in us forms part of the Euskaltel Group's success. Thanks to their support, we have become a leading telecommunications operator in our markets. We remain committed to growing together, considering each territory's needs and providing an excellent service.

The Euskaltel Group has made efforts to lead the development of state-of-the-art telecommunications networks, bringing the territories in which we operate to the forefront of connectivity and business digitalisation in Europe. In 2019, we will adopt the same approach, including our contribution to drive digitalisation in the Basque economy and sustained, sustainable growth in our country.

We will employ our talent to generate digital solutions that improve the daily lives of people and companies while offering value to our customers, our people, our shareholders and, in short, all of society, as a reflection of our responsibility for and commitment to their development and well-being.

Alberto García Erauzkin
Chairman

Francisco Arteché
Chief Executive Officer

Leaders in northern Spain

The Euskaltel Group is the leading telecommunications group in convergent offerings in northern Spain thanks to a strong commitment to and roots in the Basque Country, Galicia and Asturias. This position has been boosted in the past year as a result of expansion into Navarre and Cantabria, markets in which the business is conducted through the operators Euskaltel, R and Telecable.

Group Euskaltel in 2018

THE GROUP'S CURRENT SITUATION



The telecommunications group offers its services to a market of 6 million people, serving over 770,001 residential customers and companies. Euskaltel, R and Telecable are leaders in optic fibre (broadband, phones, pay TV and convergent telecommunications services) in the territories in which they operate, with a solid customer base and complementary business models. A mobile phone operator with its own 4G licence in the Basque Country, Ga-

licia and Asturias, it has the largest own optic fibre network deployed in the market.

The Euskaltel Group has also invested in ongoing professional training, motivation and the work climate in recent years. The Group has 697 employees with an average age of around 44 and generates over 4,200 indirect jobs in the Basque Country, Galicia and Asturias.

The Euskaltel Group in figures, main indicators



676 M€
economic value
generated



482 M€
economic value
distributed



194 M€
economic value
retained



691.6 M€
revenue



0.35€
earnings per
share



697
employees



2 M€
R&D&i
investment



770,001
customers



30,081
training
hours



429
local suppliers.
Over 10 new
partnerships



7.8
investor
satisfaction



+300
investor
interactions
in 2018

Since the Euskaltel Group's admission to trading in 2015, major challenges have been overcome in order to meet commitments made to shareholders. In a little over three years, the Euskaltel

Group has reached three significant milestones: flotation, creation of the leading telecommunications group in northern Spain and implementation of a consistent shareholder remuneration policy.

Leading the digital roll-out in the Basque Country, Galicia and Asturias

In 2018, the Euskaltel Group pressed on with sustainable growth by completing the Telecabla integration and began to expand neighbouring the markets of Navarre and Cantabria, having reached 843 homes. The figures show acceptance in the Navarre and Cantabria markets for the Euskaltel brand and a position that favours the acquisition of the Basque operator's products and services.

The sum of the capacities of the operator's three undertakings (Euskaltel, R and Telecabla) will allow the business to grow and gain strength while taking on leadership of the digital roll-out in the Basque, Galician and

Asturian societies. 2018 was a year of consolidation and growth for the Group, which took a forward step towards achieving strategic objectives and consolidating its position as northern Spain's leading telecommunications group.

The Euskaltel Group seeks to create value for all its stakeholders and stimulate economic and social development in the territories in which it operates. The keys to the growth achieved in 2018 are the Group's strong ties to these territories and the most advanced telecommunications offering for customers, homes, companies and institutions.

MILESTONES DURING THE YEAR



Expansion plan in Navarre and Cantabria with 4,372 new customers



Brand creation RACtel+ for the expansion into Catalonia



Stabilisation of residential business in the three regions (Basque Country, Galicia and Asturias)



EBITDA growth thanks to the achievement of the promised synergies and efficiencies +29.5 M€ in 2018



Revenue growth (69.4 M€ / 11.1% YoY), net profit growth (13.1 M€)



Solid free cash flow generation, 17.9% of revenue in 2018 or 124 M€

“The company has always sought to offer customers the best quality at the most efficient price. We aim to carry on providing the best telecommunications experience and to stay at the forefront of innovation and digital transformation, as a key partner in accompanying companies, institutions and individuals through their new technological challenges.”

FRANCISCO ARTECHE
Euskaltel Group's CEO

Pillars of our strategic plan



THE PILLARS AND LINES OF THE EUSKALTEL GROUP'S STRATEGIC PLAN



1.

Expansion plan to drive growth

The most relevant growth factor in 2018 was the inclusion of Telecable in the Euskaltel Group. The consolidation of the investee Telecable in the Euskaltel Group's balance sheet brought growth in all the Basque operator's business areas. What is more, the Company will enter five new markets in 2019 under an ambitious plan of strategic partnerships with the main players, which will assure growth in the near future and the potential to reach 10 million homes throughout Spain.

The approach that includes expansion into neighbouring regions has allowed the Euskaltel Group to penetrate new zones and open new points of sale, such as the stores in Ansoain, Pamplona and Castro. In Navarre, penetration reached 8.2% in some areas

towards the end of 2018 and is expected to rise to 20% by 2022.

The Euskaltel Group will also enter a total of 200,000 homes in León and Cantabria thanks to the agreement to use Orange's fibre. Under the R brand, penetration is forecast at between 4% and 6% in the last two markets in 2019, rising to 12% in 2022. The Euskaltel Group will also begin to market its services in La Rioja, where it expects to reach a further 85,000 homes.

In December, the Euskaltel Group and the RACC launched a new brand, RACCtel+, through which northern Spain's leading telecommunications operator will offer an integrated service to 600,000 homes in Catalonia. The extension of this agreement entails the Euskaltel Group's en-

try into the Catalan market, with a portfolio of over 900,000 potential customers.

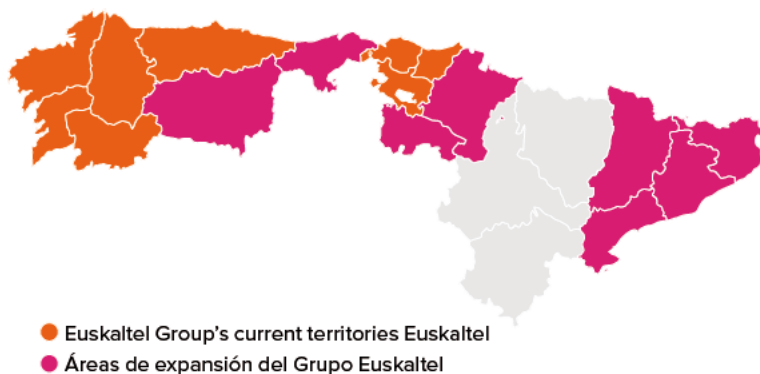
The Group's strategy has a dual focus. Firstly, the expansion of network coverage in areas that still cannot access the service in the Group's natural markets where it already does business, that is the Basque Country, Galicia and Asturias; secondly, the expansion of the Group's services in neighbouring regions such as Navarre, Cantabria and Catalonia (under the RACCtel+ brand). The Euskaltel Group has also drawn up an expansion plan to enter new markets during 2019 with a high penetration capacity, thanks to its experience and proven model. Specifically, in the near future the Euskaltel Group will begin to operate in León, Cantabria and La Rioja, in addition to the Basque Country, Galicia and Asturias.

“The first steps taken beyond our local markets have shown our ability to strongly penetrate new markets using an efficient CAPEX model. This initial success has encouraged us to increase our plans to expand in terms of both areas covered and commercial penetration.”

FRANCISCO ARTECHE
Euskaltel Group's CEO

New territories

The Euskaltel Group will enter five new markets in 2019: Navarre, León, Cantabria, Catalonia and La Rioja, besides our markets in the Basque Country, Galicia and Asturias. Through this territorial expansion plan, the Euskaltel Group's target market keeps on growing.



THE PILLARS OF THE EXPANSION STRATEGY

- Discipline
- Aggregate value
- Marketing speed

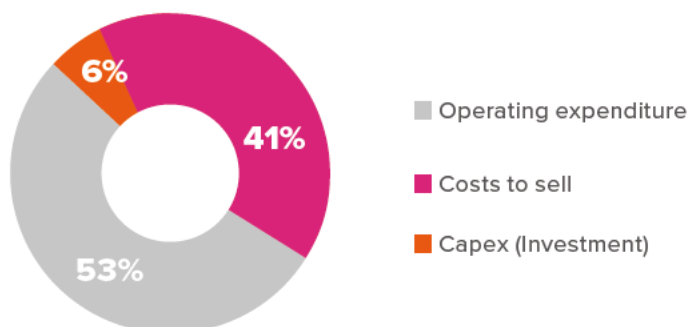


- Capacity to leverage brand value
- Consistency with the global strategy

2.

Simplification, platform integration and digitalisation

Besides Integration and expansion, In 2018 the Group worked towards simplifying, integrating platforms and digitalising its subsidiaries, a key project for internal resources to be managed in a dynamic and efficient way. With this aim, the Euskaltel Group is taking steps to achieve more streamlined structure following the acquisition of R and Telecable so as to become a more efficient and competitive operator.



**Synergies valued at
18,4 M€**

3.

Return to growth in B2B

One of the main strategic pillars is the return to B2B growth. 2018 was the first year in the past six in which B2B revenue growth in large accounts and SMEs was over 5%. This growth is the fruit of a unified commercial strategy, new products and services, digital transformation, strategic partnerships and a global scope.

In line with these objectives, the Euskaltel Group is at the forefront of innovation and digital transformation, and is a key partner in accompanying companies, institutions and individuals through their new technological challenges. With this in mind, the Company has developed services ranging from the Internet, fixed-line and mobile phones, digital TV and broadband to digital transformation processes, IoT (Internet of Things) solutions, technology for Smart Cities and Industry 4.0. These will be the keys to the Group overcoming the main challenges it faces, together with 4K technology deployment, WiFi audits in customer homes and content quality, among others.

4.

The best customer experience while retaining our B2C leadership

The Euskaltel Group is firmly committed to offering the best customer experience. The Group's B2C leadership has been retained thanks to customer experience enhancement. Assurance of the best CEX brought positive net customer registrations in 2018, reflecting the solidity of the Group's customer base.

With the objective of giving consumers the best telecommunications experience in their homes, the Euskaltel Group continues to improve and forge new partnerships with the main market players for its television, WiFi and mobile phone services, while paying full attention to customer care. As is already the case with Netflix, the Company will offer a broad catalogue of third-party shopping services in the near future.

At present, the Group provides customers with the best broadband experience based on the DOCSIS 3.1 network's high technological capacity, supplemented by the best Wi-Fi experience in home and businesses, as well as in the street.

“The Euskaltel Group is working on a number of strategic agreements with leading companies to take our expansion plan forward towards new markets and also within our product portfolio, keeping user experience at the very centre of the entire process.”

FRANCISCO ARTECHE
Euskaltel Group's CEO

The best TV experience is provided through the Deco 4K and the agreements signed with world-wide content leaders such as Netflix. In mobile communications, growth is underpinned by the sound performance and improvements in mobile telephony, the possibility of financing mobile device purchases and the launch of the 4G service, all of which have contributed to the success of this service.

The company is in constant evolution to simplify and improve user experience through a clear commitment to digitalisation, process efficiency and innovation. The Euskaltel Group has launched Netflix carrier billing in its 4K Android TV decoders to facilitate sign-up and payments in the Video On Demand platform by means of a single invoice. The company will provide this new service to all users with 4K decoders, where it currently has a market share of over 80% in Spain.

The Euskaltel Group leads industry transformation by listening actively to customer needs and offering the high-quality services and content

that consumers demand. The company was the first operator in Spain to introduce 4K Android TV decoders in July 2017, providing an open platform that has enabled over 80,000 homes to quickly access OTT content and services since its launch. By the end of 2018, 50% of the Euskaltel Group's customer base will have installed these decoders.

The Euskaltel has managed to achieve ambitious organic and inorganic objectives in record time since its stock market flotation in 2015 to become a genuine multi-regional platform, deeply rooted in its main markets but fully prepared to enter and grow in new areas. The Euskaltel Group is competing in an immersive scenario that offers new challenges but also huge opportunities. The Group's strategy designed to achieve its main objectives is clear and comprehensive, grounded in the entire organisation's commitment to value generation through customer experience, growth and efficiency. The implementation of this strategy will assure sustainable value creation for shareholders in the medium-to-long term.

PILLARS OF THE EUSKATEL GROUP'S STRATEGY



Diversified
growth



Operational
excellence



Distinctive
experience



Customer value
protection

Organisational and cultural capital

The Euskaltel Group's organisational and cultural capital, founded on diversified growth and operational excellence, is a fundamental aspect of the strategy. 2018 saw the consolidation of the Group's organisational and cultural structure through the integration of all its businesses.

Helping to expand a solid, responsible culture

Our mission is focused on generating value, responding comprehensively to communication needs and helping businesses boost productivity by providing them with information management and communication tools, thereby contributing to social and economic development in our community.



The Euskaltel Group's institutional activities are designed to show responsibility and proximity to its stakeholders, shareholders, customers, society, suppliers and people.

The Euskaltel Group is people-focused and aligned with the Sustainable Development Goals (SDGs) so as to make a more efficient, direct contribution to developing a fairer society with less inequalities and more development opportunities. The SDGs serve as references when designing and implementing policies and actions in response to different needs.

This action philosophy reflects the Group's mission to make the Company a trailblazer in the local economy, generate business opportunities, influence employment, lead the

country's networks of business associations, generate confidence and pride in belonging, foment social commitment and digital development in the Basque, Galician and Asturian societies and boost competitiveness and cooperation among public and private organisations. In short, the Group's mission is to make a clear contribution to the achievement of SDG 8.

The Group also strives to enhance transparency and meet the best corporate governance practices in order to build a solid, strong organisation that stimulates loyalty and trust in all our stakeholders. Through its corporate policies and the development of new internal operating systems in the Company, the Euskaltel Group made further progress towards SDG 16 in 2018.





Corporate governance

Good corporate governance allows the Euskaltel Group to achieve its leadership vision by contributing global ICT solutions tailored to market needs, with a department that works ethically and transparently, subject to internal and external control and verification.

This good corporate governance seeks the greatest possible transparency, effectiveness, drive and control across the entire organisation. This means assimilating a set of values, principles and standards that regulate the functioning and organisation of the administrative bodies, as well as relationships with the Company's share-

holders, the purpose being to assure the best possible pursuit of the corporate objects while meeting the shareholders' common interests.

The Euskaltel Group's corporate governance system is founded on a commitment to best practices in good governance, business ethics and social responsibility in all areas. In recent years, corporate governance has become a key to good management and social responsibility in companies, the Euskaltel Group being a benchmark for the roll-out of business models and measures that guarantee good governance in the organisation.

Approval of New Corporate Policies

As part of its good corporate governance activities, the Euskaltel Group's Board of Directors has approved a policy on auditor contracting and relations, together with the commitment to promote the highest levels of external auditor independence and, in any event, avoid relationships that could give rise to a conflict of interests. The Group also wishes to put in place suitable auditor communication channels to ensure that any issues that may jeopardise the auditor's independence or causes of incompatibility stemming from personal situations or professional services may be reported.

The Equal Opportunities Policy has also been reviewed and updated so that it is unified and applicable across the Group. This policy includes the strategic objective of building employment relations based on equal opportunities, non-discrimination and respect for diversity. Specifically, the Board of Directors considers equality between men and women to be one of the core values of the organisation.

The Euskaltel Group has a number of specific policies governing stakeholder relations, including applicable values and principles:

Key policies and procedures in the Euskaltel Group's strategy



Code of Ethics

Develops the corporate values and principles of the companies that form the Group and lays down conduct guidelines that are binding on the Euskaltel Group's Board of Directors, professionals and suppliers.



Instructions for Behaviour

The Euskaltel Group's Code of Ethics includes conduct guidelines, in addition to compliance with legislation applicable to the business activities.



Ethics Channel

The Group's professionals, customers, suppliers and third parties have at their disposal a good faith mechanism to securely and confidentially report alleged facts or actions that they feel could infringe the Code of Ethics and Instructions for Behaviour, corporate governance rules or applicable external legislation or regulations. The channel is also employed to request information, make queries or clarify matters related to prevailing legislation.



Integrated Management System Policy

This covers the Group's policies deployed in the processes need to assure customer satisfaction, protect and improve the environment, and address all kinds of risks and well-being issues. It includes the Environmental Policy, together with the Quality and Occupational Safety Policies.



Corporate Social Responsibility Policy

This allows the consolidation of a consistent, sustainable and socially responsible business project in line with the current regulatory framework, the 2030 Agenda, the Paris Climate Agreement and the CNMV's Code of Good Governance.



Anti-Corruption Policy

A tool to promote the Group's compliance with anti-corruption and anti-bribery legislation, fomenting honesty as a corporate value against any form of bribery or corruption.



Equal Opportunities Policy

This aims to achieve an environment that favours a work-life balance for the Group's professionals and, in particular, real equality for women and men, while observing the laws in each country and international best practices.



All the Group's policies are revised and, if applicable, updated so as to obtain the desired outcome.

Other relevant policies and rules underpinning the Euskaltel Group's strategy



Director Selection Policy.



Policy on Communication and Contacts with Shareholders, Investors and Proxy Advisors.



Director Remuneration Policy.



Corporate Fiscal Policy.



Euskaltel Group's Policy on Auditor Contracting and Relations.



Euskaltel S.A.'s Internal Code of Conduct in Stock Markets.



Board of Directors' Regulations.



General Shareholders' Meeting Regulations.



Risk management, ethical culture and good governance



The Euskaltel Group's values



Proximity



Honesty



Innovation



Efficiency

In view of the increasing significance of corporate governance in the international arena, the Euskaltel Group is taking further steps to enhance corporate governance and comply with the CNMV's Code of Good Governance in Listed Companies.

The main risks identified in the Euskaltel Group are classed as strategic, operational, compliance, information or cybersecurity risks. The starting point when identifying these risks is the analysis and assessment of factors that can have an adverse impact on the fulfilment of business objectives, resulting in a map of the main risks grouped in categories and an assessment of potential impact and probability. The Group's risk management process then requires a certain response to those factors and the roll-out of control measures necessary for the reaction to be effective. The

Euskaltel Group's risk map has been reviewed to lay the foundations for the new Risk Management Model, making changes that reflect the Group's own development, market trends and industry trends.

The Risk Control and Management Policy assures the Euskaltel Group's stability and continuity, laying down basic principles, key risk factors and general framework for risk management and control. This policy is developed and supplemented by specific internal policies or rules for certain Group units or areas, as mentioned in the previous section on corporate governance.

The main progress achieved in risk management, ethical culture and good governance in 2018 is described below:

Implementation of a Unified Compliance Model

Among other matters, 2018 saw the integration of three companies engaged in the same business but with differences relating to culture, organisation, applicable legislation and territorial scope. For the purposes of integrating Organisational and Cultural Capital, the Euskaltel Group developed a model that simultaneously addressed integration and compliance, which was deployed across the Group to strengthen the culture of ethics and regulatory compliance, while also bolstering independence and efficiency. This model is another step in the Group's commitment to promote an ethical culture oriented towards preventing actions that could generate liability for the organisation,

thereby enhancing good governance and risk management as a basis for business sustainability, grounded in compliance with applicable external and internal regulations.

Full adaptation to the GDPR

The Euskaltel Group has successfully implemented an intensive action plan to comply with Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 (GDPR) on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, applicable as from May 2018.

The Group took steps during the year to bring the most critical requirements of the new data



100%

acceptance of
the Code of
Ethics in 2018



91%

access to training and
acceptance of the Anti-
Corruption Policy



116

leaders trained face-to-face
in regulatory compliance



866

hours of Anti-Corruption Policy
and Code of Ethics training

protection regulation into its procedures, including training actions for all employees.

Ongoing employee training

In 2018, a representative number of the Euskaltel Group's professionals received training in leadership skills so as to foment and boost management and leadership skills within the Group. This training shared with over 100 professionals the importance of knowing and applying the Euskaltel Group's internal rules, particularly the Code of Ethics, as well as transmitting it to their teams through their leader roles.

A number of communiqués were distributed to the employees during 2018, forming part of the Compliance Communication Plan, as a tool to involve all the Euskaltel Group's workforce in the culture of ethics and regulatory compliance. Employees were reminded of the existence of documents such as the Code of Ethics, Instructions for Behaviour, Anti-Corruption Policy, Ethics Channel and Criminal Compliance Roles and Responsibilities, highlighting their significance and accessibility. These documents are currently available to the Group's professionals in each of the relevant intranets and the Code of Ethics, Instructions for Behaviour, Ethics Channel and Anti-Corruption Policy are posted on each Group company's website, accessible both to employees and all other stakeholders.

During 2018, all the Euskaltel Group's professionals received external expert training on the Code of Ethics, Instructions for Behaviour and Anti-Corruption Policy through an online study process that ended with a test to evaluate their ethical culture and good governance skills. This training included information and examples relating to regulatory compliance and the Group's compliance model so as to encourage the professionals to become involved in and responsible for developing a culture of ethics and regulatory compliance, observing the essential values

and principals of the Code of Ethics.

Internal training was also provided on the Code of Ethics prior to acceptance by all the professionals by means of a questionnaire.

Finally, a note was distributed to all the employees on the acceptance of hospitality and gifts, as well as a letter to all the suppliers addressing the corporate culture and, in particular, the approach to rejecting gifts that could affect impartiality or objectivity, or influence a commercial relationship with people in the Euskaltel Group.

Development of GRC tools

In 2018, the Euskaltel Group implemented a GRC tool supporting the entire Internal Control over Financial Reporting (ICFR) system so as to assure efficient management of internal control through traceability and the correct assignment of responsibilities for the assessment of pre-defined financial risks and controls. The Euskaltel Group is also developing a GRC (Governance, Risk and Compliance) tool that will allow a single framework to be put in place to effectively manage risks based on a model for crime prevention, identification of corporate risks and correct General Data Protection Regulation management.

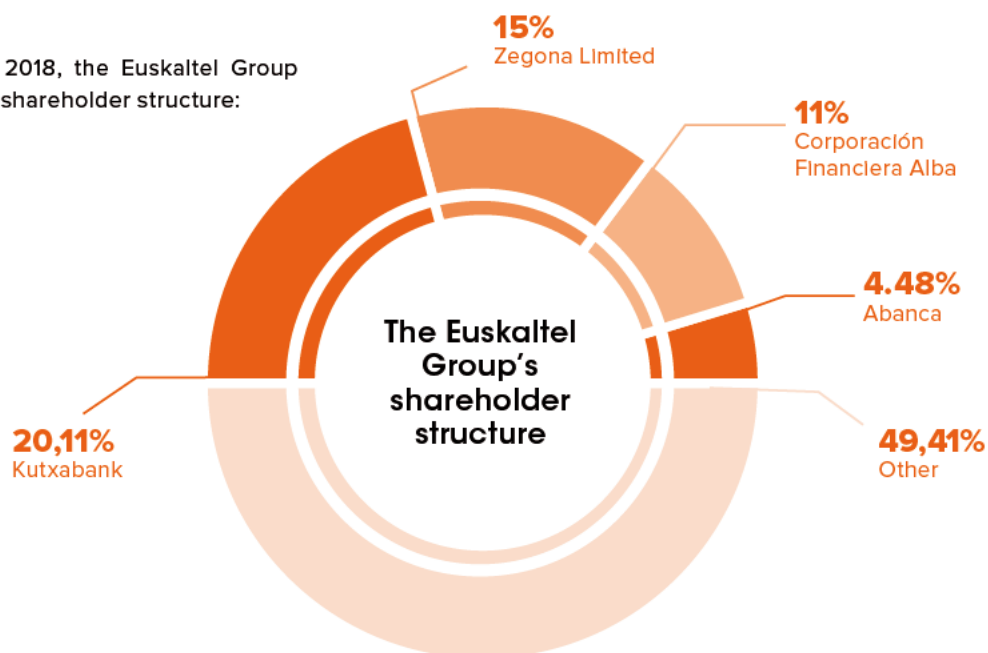
Extension of the Ethics Channel to stakeholders

The scope of the Ethics Channel was increased in 2018 to provide third parties with a tool to confidentially report both doubts or queries related to the Group's activities and alleged facts or actions they consider could infringe the Code of Ethics and Instructions for Behaviour, or any other rules included in the Euskaltel Group's corporate governance system, as well as applicable external legislation or regulations. The Ethics Channel may be accessed through each of the Group companies' intranets by all the professionals and by means of their websites by stakeholders.



Shareholder structure and Board composition

At 31 December 2018, the Euskaltel Group has the following shareholder structure:



Board of Directors

The Board of Directors has 12 members (3 women and 9 men), 2 of whom are executive directors (Chairman and CEO), 4 are nominee directors and 6 are Independent. 11 directors are aged over 50.

The Board of Directors, in a plenary meeting, has the authority to approve the Company's general policies and strategies and, particular, (i) the strategic or business plan, as well as management objectives and annual budgets; (ii) investment and funding policy; (iii) definition of the structure of the group of companies; (iv) corporate governance policy; (v) corporate social responsibility policy; (vi) risk control and management policy, including tax risks, and the periodic monitoring of the Internal Information and control systems; (vii) dividend and treasury share policy, particularly related limits.

The Board of Directors entrusts day-to-day management to the Chairman, the Chief Executive Officer and the Management Team, as well as the dissemination, coordination and general implementation of the Company's policies and guidelines, in order to focus on the definition, supervision and monitoring of the general policies, strategies and guidelines to be followed by the Company and its Group.

The Board of Directors meets as often as is appropriate to properly perform its duties and at least six times per year, holding at least one meeting each calendar quarter.

There are three Board committees:

- Audit and Control Committee.
- Appointments and Remuneration Committee.
- Strategy Committee.

The committees have no executive functions but rather act as information and consultation bodies, authorised to inform, advise and propose within their scope of action, which is governed by the Bylaws and their own internal regulations (Audit and Control Committee Regulations, Appointments and Remuneration Committee Regulations and Strategy Committee Regulations). Their main task is to assist, inform and raise proposals to the Board of Directors on matters assigned to them by the Bylaws, Board Regulations or their own internal regulations.

Directors' remuneration is subject to the prevailing Directors' Remuneration Policy approved by the General Shareholders' Meeting and is overseen by the Appointments and Remuneration Committee. This remuneration is set out in the Annual Report on Directors' Remuneration published by the Group.

The companies R Cable y Telecomunicaciones Galicia, S.A.U. and Telecable de Asturias, S.A.U. each has a sole administrator (Euskaltel, S.A.), an office that is not remunerated.

Board of Directors performance evaluation

In 2017, the Board of Directors and the Audit Committee each conducted self-assessment processes that led to a number of proposed improvements, some of which were implemented in 2018 and others are in progress.

A Board evaluation exercise is a continuous improvement tool, so the assessment process conducted in 2018 with the help of an external advisor has served to measure the degree of implementation of those improvements and to detect new improvement proposals in each aspect evaluated and described below.

The mandatory annual Board evaluation process was carried out in 2018 with the assistance

of an independent external advisor so as to comply with recommendation 36 of the Code of Good Governance in Listed Companies, which states that the Board of Directors will be assisted in the evaluation every three years by an external consultant.

The following aspects were assessed:

- Strategic control.
- Risk management.
- Business monitoring.
- Work procedures.
- Board composition.
- Board operations.
- Committee evaluation.
- Performance of Bylaw roles.
- Individual performance of directors.

Phases of the Board evaluation process

- The initial planning phase involved meetings to discuss the situation, review documents and prioritise the relative significance of each aspect. This led to the preparation of questionnaires to gather information from and communicate with the Board members, as well as a specific work plan.
- In the second phase, the information, opinions and inputs from the Board members were compiled and draft Diagnosis and Recommendations were drawn up, presented and discussed by the Appointments and Remuneration Committee.

The process included a specific, separate assessment of the Audit and Control Committee, using the CNMV's Technical Guide 3/2017 as a reference.

The findings of both evaluation processes were highly satisfactory based both on the opinions of the members and the examination of structure, policies and procedures applied.

Executive Chairman's functions

- Oversight and assessment of the Chief Executive Officer's performance.
- Management, oversight and evaluation of the Secretary and Vice-Secretary to the Board of Directors.
- Executive management of responsibility for corporate development, subject to the Board's final approval.
- Involvement in the definition of strategy proposals to the Board of Directors.
- Oversight and coordination of the Group's corporate communication and external relations (Institutional Relations and Investor Relations).
- Oversight of the Internal Audit and Compliance Department (Internal Audit, Compliance and Data Protection), which reports directly to the Audit and Control Committee.



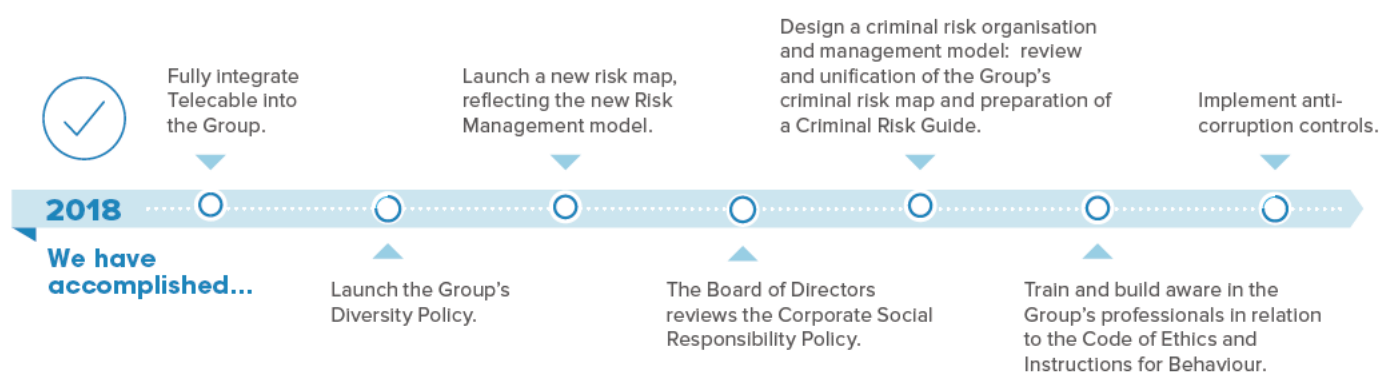
CSR management

The Euskaltel Group's corporate social responsibility management is based on its ties to and identification with the local community, social commitment, operational excellence and responsible management as the essential pillars of a sustainable, socially responsible undertaking that is valued by all its stakeholders. This approach has been continuously developed and implemented through actions and plans on the way to reaching significant milestones. During times of expansion, the Group CSR management has been taken into account as a key factor when building a solid, responsible and sustainable organisation. Each year, the Board of Directors is informed of the Group's economic, social and environmental performance.

With this mind, the strategy has been based on the CSR 2016-2018 Master Plan in recent

years, the main purpose of which has been to align the Group's CSR vision, policy and culture in times of growth and change. The Master Plan and related strategic lines have also been adapted to new requirements identified by stakeholders, which increasingly emphasise responsible management and are more diverse, with different backgrounds and concerns. The CSR Plan monitoring approach has been put in place by the CSR Process team, formed by the departments engaged in tasks related to the defined areas of corporate social responsibility. In 2018, when that plan came to an end and in order to lay the foundations for the CSR 2019-2022 Master Plan, the Group's main targets and opportunities in the new working environment were studied and conclusions were drawn to enhance CSR management.

Assessment of fulfilment of 2018 commitments



Degree of fulfilment of commitments undertaken

☒ Fulfilled
 ☐ Advanced
 ☐ In progress
 ☐ Initiating measures

Contribution to the Sustainable Development Goals (SDGs)

One of the main objectives of the new CSR 2019-2022 Plan will be to lay the foundations for corporate social responsibility management in connection with the Group's contribution to the Sustainable Development Goals, aligning strategies with the SDGs. The Group will seek to quantify its contribution to the great economic, social and environmental challenges facing humankind. The Euskaltel Group is committed to the local 2030 Agenda in the Basque Country, Galicia and Asturias so as to develop and deploy solutions and technology that will stimulate sustainable development.

In recent years, an in-depth understanding of the SDGs has been gained and shared with our employees through internal campaigns and assimilation into the corporate culture. With the focus on the priority SDGs 8 "Decent work and economic growth" and 9 "Industry,

Innovation and Infrastructure", two goals entirely aligned with the Group's business, in 2018 the Company took steps to launch initiatives to achieve these objectives through over 150 partnerships to promote technology start-ups and develop local entrepreneurial talent.

Senior management also provided essential support for these activities and the integration of the goals into our strategy. Thanks to this, in 2018 began to set concrete targets measured by means of specific indicators to bring the Company's objectives fully into line with the SDGs. The SDGs are in turn an opportunity to identify future business areas, increase the value of business sustainability, strengthen stakeholder relationships, keep abreast of policy development, stabilise societies and markets, and employ a common language with a shared purpose.

2019 Commitments



PILLARS OF THE EUSKATEL GROUP STRATEGY



Diversified
growth



Operational
excellence



Distinctive
experience



Customer value
protection



Human capital

The Group's human capital has a direct impact on operational excellence. In 2018, the focus was placed on digitalising processes and the digital transformation of the workforce so as to provide tools to achieve more efficient processes and more effective work, equipping employees with digital devices that facilitate their daily tasks.

Contributing to egalitarian and sustainable local development

We want to help local economic development through quality, inclusive employment and foment a good work climate using tools that facilitate daily work and programmes that motivate our teams.



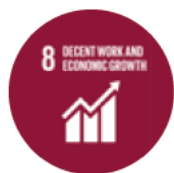


In 2018, the Euskaltel Group focused on a far-reaching digital transformation of the processes and tools employed by our people. This “inward” digitalisation will allow our professionals to carry out their work more efficiently regardless of the location. Through the renewal of equipment and addition of mobile devices such as laptops and smartphones, the Group’s workforce can adopt new ways of working, balance work and life, and provide a better service to customers.

The 697 people that form part of the Euskaltel Group are a highly-skilled team that demand and value efficient processes and digital development, as reflected in the

work climate surveys conducted. Our professionals have increasingly diverse profiles adapted to industry and market needs, which provides the Group with considerable human capital value, assuring operational excellence in our services, as envisaged in Strategic Plan 2017-2019.

Ongoing training, diverse talent attraction and retention management, and the promotion of the Group’s own culture, influencing the local community and stimulating local economic development, are key aspects of our contribution to the Sustainable Development Goals on decent work and economic growth, gender equality, reduced inequalities and innovation, among others.



Promotion of quality employment

697
total employees

41%
women



59%
men



99.9%
indefinite
contracts



100%
employees
receiving
performance
evaluation



14
average length
of service



44
average age
of workforce



5%
churn rate

The Euskaltel Group is formed by **697** people in three main businesses: Euskaltel, R and Telecable. The Group's activities also generate **4,200** indirect jobs thanks to our strategic partnerships.

The Euskaltel Group and employment

The Euskaltel Group's human capital is comprised 41% of women and 59% of men, with an average age of 44 and a team of 697 people. The Company foment flexible working hours to strike a work-life balance and stable employment, 99.9% of the workforce having Indefinite employment contracts.

The Euskaltel family also has a direct impact on over 4,200 jobs thanks to the Group's strategic partnerships with local suppliers in the Basque

Country, Galicia and Asturias, creating value and synergies with other local enterprises.

The Group's structure is based on corporate areas which manage the entire Company's affairs. Proximity to customers and local communities is assured by maintaining brand identity (Euskaltel, R and Telecable) and direct knowledge of their needs and expectations.

Corporate values

The Group's values include the identity of three convergent brands that share proximity to customers, honesty with all stakeholders, the search for innovation to enhance services and efficient processes. For the Euskaltel Group, identification with these values is critical, since the behaviour of the Company's people is distinctive and delivers differential value for our stakeholders. This is why new joiners are told of the significance of this behaviour and it is included in the professional career model that will be implemented in 2019.

The Euskaltel Group's values



Proximity



Honesty



Innovation



Efficiency

Identification with these values is critical, since the behaviour of the Company's people is distinctive and delivers differential value for our stakeholders.



Work-life balance

The Group's Strategic Plan places great emphasis on matters related to a work-life balance, which is also one of the aspects in most demand according to work climate surveys. Besides flexible working hours compatible with family life, an aspect that sets the Group apart from other

comparable companies, the digital transformation of employees has helped to achieve a more effective balance, allowing professionals to work anywhere. The digitalisation of work and cloud migration not only facilitates processes but are also great assets for employees' personal lives.



Digital transformation of operations

The Group took a huge step in 2018 in its digital transformation, beginning by equipping the Company's people with the tools needed to manage the cultural shift towards process dig-

italisation, interaction with colleagues and the way in which information is processed, among other aspects.

The keys to digital transformation, beyond technology, are the people that form the Euskaltel Group. So our professionals have to be trailblazers in this change process.

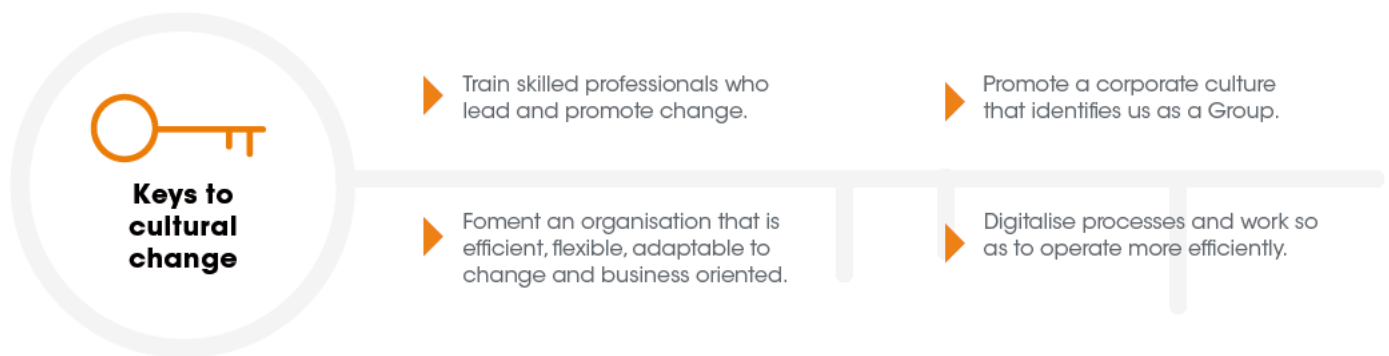
Process digitalisation

2018 was decisive in the shift to a new digital culture due to new digital tools such as Office 365, the deployment of mobile devices for employees (laptop and new smartphones) and the fitting-out of 30 meeting rooms for video conferencing. All this drive towards a new digital culture is already changing the way teams work and interact on a daily basis.

As established in Strategic Plan 2016-2019, the digitalisation process is the basis for a multitude of programmes addressing strategic goals to lead the cultural change, so involving the workforce is one of the first steps to be taken. One of the most representative moves in process digitalisation was the creation of a single Employee Portal for all the Group's employees,

where they may manage and consult working hours, holidays, professional data, remuneration and performance evaluations, among other aspects. This allows them to complete different

formalities that were previously handled offline. Training and development of each of the Group's professionals will also be managed through this portal in the near future.



New ways of working

The digital revolution has shifted the way people work and stakeholder relations towards more interactive, instantaneous and efficient contacts. Digital transformation and process digitalisation have therefore led to new ways of working that promote a work-life and go beyond telework.

The Euskaltel Group is studying new approaches to work as a philosophy that adds value to employees' daily activities. Smart working, which is

still under development, follows the premise that technology must improve employee experience and is intended as a new approach to work with technology as the basis, commencing with the digitalisation of work.

The first smart working actions began in 2018, using the following levers of mobility, teamwork and digitalisation to increase productivity, work-life balance and satisfaction.

Smart working actions 2018

- Favour mobility through mobile devices.
- Increase teamwork using collaboration tools such as Office 365.
- Introduction of new platforms that allow process digitalisation in the people management arena.



Diverse talent development

The Euskaltel Group firmly believes that the keys to success in the industry are a solid human team that has an easily recognisable

corporate culture, ongoing training in line with their skills in a collaborative environment and suitable digital tools to address the cultural change.

59%
men

50%
collective
agreement

4.5%
managers

4.7%
executives



41%
women

38%
collective
agreement

2.2%
managers

1%
executives



Diversity and equality

In 2018 the Group continued to implement programmes to encourage equal opportunities and employee diversity, in the broadest sense, across the Organisation's categories.

The Euskaltel Group has a balanced workforce from a gender viewpoint, which is noteworthy in a company operating in an advanced technology sector, with a highly qualified workforce whose skills are constantly being updated.

Equality of opportunity is also encouraged, it being understood that any vacant position should be covered by the most appropriate profile, irrespective of gender, age, cultural background or nationality. Euskaltel's Equality Plan aims to ensure due respect for the principle of equal treatment and equal opportunities for men and women, as well as to improve equivalence in this area. Work is being carried out on the remuneration model applying the same approach, on the basis that the same categories should meet similar conditions both inside the Company and in comparison with other industry companies, thereby avoiding any salary gap. These matters are set out in Euskaltel's Equality Plan which was released in May 2018 and which seeks to safeguard and encourage an inclusive, respectful and diverse environment.

The Group's human resource management is based on respect for human rights and the rejection of any type of discrimination, encouraging equal opportunities, facilitating freedom of association and the right to collective bargaining and rejecting, in its area of influence, forced labour, particularly where child labour is involved.

The Group has continued to develop programmes to encourage equal opportunities and diversity.

All employees have expressly accepted the Code of Ethics which is posted on the intranet and web site of each Group company, and have access to the Ethics Channel via the relevant intranet. Using this channel, they can report any kind of discrimination they identify in the Euskaltel Group's diversity management.

Training and development plans

The development of talent is a cornerstone of the Strategic Plan, in order to provide distinctive service and be an attractive business. Hiring and retaining talent is connected to continuous professional training in a sector in which the updating of knowledge is increasingly important.

TalenTU

The Euskaltel Group has in place a programme offering growth and professional development opportunities called TalenTU, through which the Training Plans are carried out. The TalenTU programme seeks not only to manage and develop talent, but also to maintain it in the long term, since its challenge as an organisation is to

ensure that the Group has the right capacities at the right time to achieve its strategic objectives. The TalenTU Programme is supported by various projects:

- Designing a leadership model that will transform the company.
- Designing a professional development itinerary for each professional, taking into account the stage to which they have progressed in their own careers.
- Designing new ways of attracting young talent.

Leadership

5 Competencies of a good leader

1. Personal consistency
2. Capacity to develop and motivate individuals and teams
3. Executive capacity
4. Strategic vision
5. Capacity to transform

Within the TalenTU Programme, the Euskaltel Group has a leadership development plan which aims to ensure that the Organisation's leaders acquire competencies such as transformation capacity, strategic vision, executive capacity or the capacity to develop and motivate teams, all of which are necessary to fulfil their role in the company.

In this respect, during 2018 the programme centred on implementing leader-coach skills initiatives to train them in communication capacities such as listening, clear communication, etc. Seven editions have been carried out, involving 116 persons who have devoted 2,526 training hours to improving their leadership skills.

Women with Talent

A women's leadership programme called Women with Talent has also been developed, with the encouragement of the Group's Management Committee.

Its aim is to focus on the importance of the role played by women in the Euskaltel Group. This programme consists of competency development training modules, inspiring meetings, support and follow-up sessions, work breakfasts and lunches and the presentation of a final project with the aim of enhancing the image of women leaders in the Organisation. The programme covered a period of around nine months in which 14 women took part, devoting 681 hours to training.

In June 2018, prior to its launch, an impact session was held with the entire company aimed at strengthening the commitment to make progress in equality and in the promotion of female leadership.

Finally, CEO breakfasts with leaders are an important initiative that seek to involve the Company's leaders in strategic matters and transmit corporate values through them.

Professional Development

The Euskaltel Group is aware that the world is changing due to the arrival of the digital revolution and therefore the content of work posts is also changing. For this reason, by means of the TalenTU Programme, the Group has launched an initiative to adapt and customise the knowledge and skills that will be required in the workplace, designing a professional career model that will enable an itinerary to be laid out for each employee's professional development.

This year, 30,081 training hours have been taught, comprising 12,553 hours of technical/technological training, 13,731 hours of language training and 3,797 hours of skills training. As the sales activity is the main axis for achieving the Group's results, professionals in this area have been provided with support in the form of training aimed at helping them to achieve their objectives, with 222 hours devoted to this type of training.

In addition, through the development plans, the evaluation model takes into account the skills required for each type of worker depending on their structural position and the area in which they work, assigning them suitable objectives and competencies which are monitored on a half-yearly basis.

Our employees' professional development is not over when their contract ends. Thanks to our outplacement programme, the Group offers six months of personalised orientation to find a new job. Four people took part in this programme in 2018.

Finally, Euskaltel's Equality Plan includes a training policy to promote educational actions with specific modules on effective equality between men and women.



30,081
training
hours



43.16
average
hours' training
per
employee

Capturing young talent

The Euskaltel Group's focus on contributing to the development of economic growth and promoting local employability is the basis of one of the main initiatives for capturing talent developed by the Company, through collaboration with Universities, Vocational Training Centres and Foundations for labour integration in the Basque Country, Galicia and Asturias. This collaboration with educational institutions has a double purpose:

- To help in students' work orientation. To this end, student visits are arranged from vocational training centres and secondary schools in which day-to-day working practices are explained.
- To provide information on employment options and professional profiles, sharing the most relevant projects on which the Group is working with the students.

Thanks to these collaborations, in 2018 a total of 43 persons have been taken on for practical

training under Educational Cooperation arrangements, and a total of 14 student visits have been carried out involving various educational centres.

The Group also collaborates in initiatives such as the Foro Tecnológico de Empleo or the Foro Empleo in order to bring together companies and future technology graduates from the universities of Vigo and Oviedo, among others, or in fairs with Group brand stands such as the Feira Internacional de emprego of Finde.U, also in Vigo.

This close relationship through which mutual knowledge is shared is, in turn, a junction for combining academic and business training through work experiences using initiatives to encourage trainee recruitment, work orientation talks and student visits to the company.

Since 2017 the Group has also had an "employer brand" to enhance its engagement with employees and the recruitment of young talent.

43

trainees

14

visits by
students
from various
educational
centres



employer
brand since
2017



Working environment and welfare

Working environment

The working environment is one of the most relevant factors for Euskaltel Group employees, as is reflected in the latest Work Climate Surveys and in other analyses. For this reason the Group has carried out various initiatives that promote a good working environment:

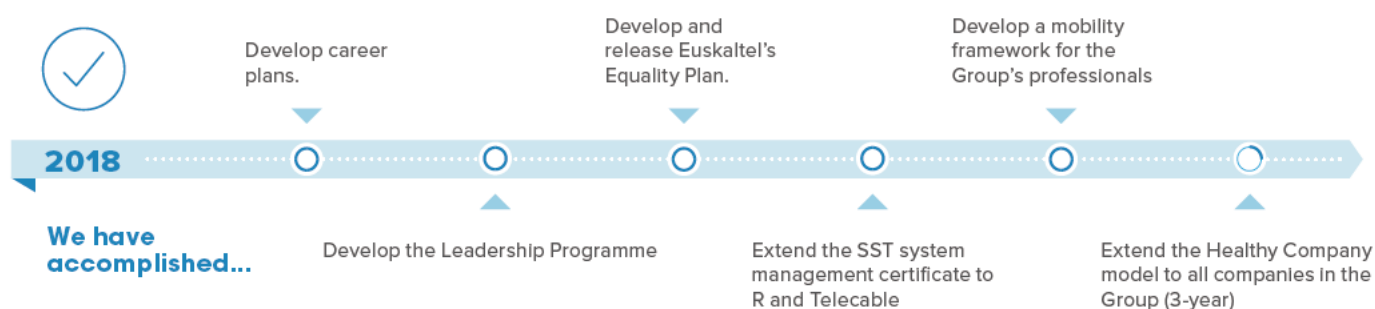
- Work-life balance and working time arrangement policy: Euskaltel's Equality Plan lays down the requirement for the analysis and continuous updating of the company's existing work-life balance measures, constantly collecting information on the real needs of the workforce in each case. It also sets out the commitment to promote courses on work-life balance and equality policies, in order to promote cultural changes among staff with respect to these matters
- Flexible timetables when arriving at and leaving the offices and work centres of the Euskaltel Group.

- Internal mobility: the Group facilitates mobility, rotation and internal promotion through the TalenTU project, covering vacancies with Company personnel that seek to improve their knowledge and acquire new professional skills. In 2018, 15 employees were involved in internal rotation.

The working environment is one of the most relevant factors for employees in the Euskaltel Group.

- Participation and teamwork: as one of the most highly valued aspects in the working climate survey, the Group encourages teamwork and the exchange of experiences with colleagues from different areas.

Assessment of compliance with 2018 commitments



Grados de cumplimiento de los compromisos adquiridos

- ☒ Fulfilled
 ☐ Advanced
 ☐ In progress
 ☐ Initiating measures

Healthy Company

One of the main initiatives that foster a good working climate in the Organisation is the implementation of the Healthy Business model throughout the Group. This model aims to contribute to improving employees' health by implementing the principal means of prevention and detection of illnesses at Group facilities.

To build the Healthy Company model on a corporate basis, in 2018 the prevention management model implemented in Euskaltel was extended to R and Telecable, certifying the entire Group with respect to the OHSAS 18001 standard.

Euskaltel also maintains its objective of taking the gender perspective into account in occupational risk prevention, as provided in its Equality Plan. The measures include not making trips and transfers of residence during pregnancy, providing work posts that are compatible with risk pregnancies if necessary, analysing psycho-social risk surveys based on variables of gender and age, or providing training on Occupational Health and Safety from a gender perspective, among others.

ACCIDENT RATE



(1) Days' work lost per thousand hours worked.

(2) Accidents requiring absence per million hours worked

Number of accidents and days lost per accident								
	2016			2017			2018	
	Men	Women	Total	Men	Women	Total	Men	Women
Accidents requiring absence	0	0	0	0	1	1	0	1
Accidents w/o absence	1	0	1	2	2	4	2	0
Days lost	0	0	0	0	45	45	0	80

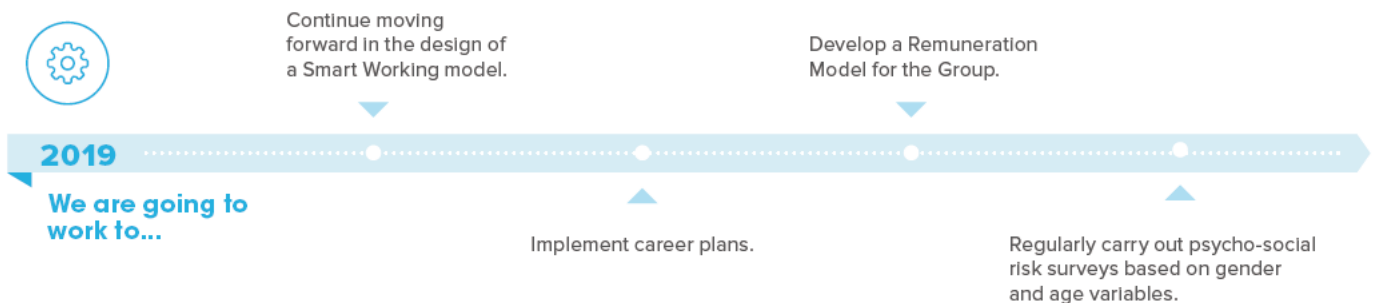
Men Women Total

ABSENTEEISM³



(3) Absenteeism is calculated by obtaining the percentage of hours lost solely due to common illness with respect to the total number of hours worked.

2019 Commitments



PILLARS OF THE EUSKALTEL GROUP STRATEGY



Diversified
growth



Operational
excellence



Distinctive
experience



Customer value
protection

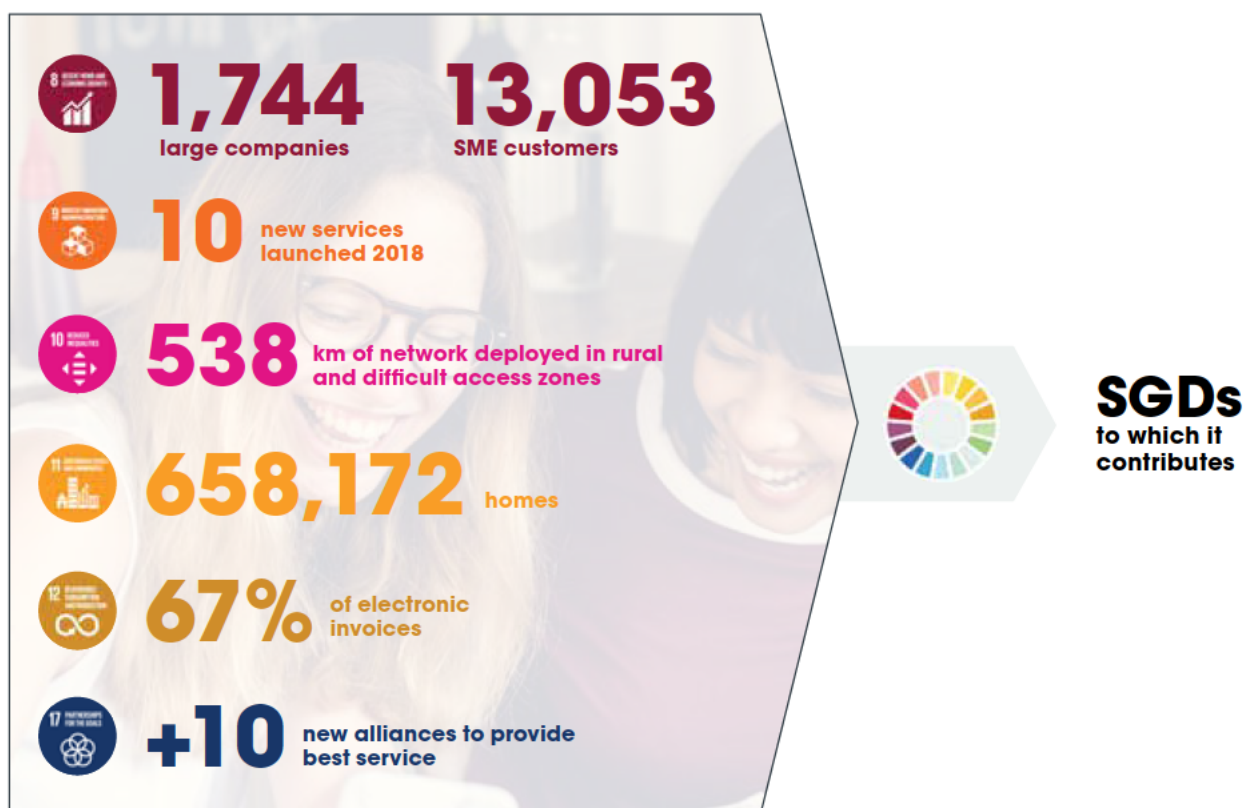


Customers

The Customer area is essential for the distinctive experience and customer value protection strategic pillars, since it includes the main levers and lines of action related to their achievement. In 2018 various actions were implemented with the aim of increasing user satisfaction, such as the improvement of physical stores and communication channels with customers.

Contributing to responsible and distinctive consumption

We wish to integrate our corporate values of proximity, honesty, innovation and efficiency into our dealings with customers, with the aim of being recognised by them as a distinctive brand that cares about offering the best service in the territories in which we operate.



In 2018 the Group continued to work on offering a distinctive experience for customers, paying particular attention to measuring their satisfaction and identifying their needs. In addition, in the expansion process being carried out by the Euskaltel Group particular attention has been paid to these details in order to penetrate the new market.

For this reason, the Customer Experience programme has again been one of the main lines of action and was extended in 2018 to cover all the business lines and territories in which the Euskaltel Group operates. By means of active

listening and the measurement of user satisfaction, the Euskaltel Group aims to promote innovation and the necessary infrastructures to contribute to the development of sustainable cities and communities, with responsible production and consumption.

Bearing in mind that the Group is the leader in the north of Spain, with Euskaltel, R and Telecable being leaders in the Basque Country, Galicia and Asturias respectively, its contribution to the Sustainable Development Objectives is essential to achieve the 2030 Agenda set in each of the Autonomous Regions.





Distinctive customer experience

Process digitalisation has enabled the Euskaltel Group to achieve greater proximity with its customers, which is one of the corporate values that best defines and distinguishes the Group. In addition, In 2018 A new CRM (Customer Relationship Management) was implemented to improve two-way communication with customers, making it easier to know their needs, expectations and level of satisfaction with the service received. Customers also enjoy direct communication with the Group through the website, where they have a personalised portal to consult consumption, billing and new personalised offers. Communication has also been intensified in stores to establish a direct and personal relationship between the Group and users.

In addition, the Group enhances user management through business continuity (ISO22301), service (ISO 20000-1), customer care (UNE-EN 15838), data security (ISO 27001) and product quality (ISO 9001) certificates.



Meetings with corporate customers

During the year the Euskaltel Group has encouraged the transfer of technical know-how through meetings with corporate customers, with three objectives:

1. Ascertain companies' technological needs for carrying out their business activities in order to advise them on the services that can help them to improve their business models.
2. Explain and discuss the main trends in the digital transformation area.
3. Strengthen close relations and enhance the concept of a telecommunications company that accompanies its customers along the path to digitalisation.

The meeting format is in line with the type of customer and the objective to be achieved (Business & Breakfast, Technology Seminars, Workshops). Around 75 persons attended these meetings during 2018.

770,001
customers

70.8%
satisfaction

78%
homes with more
than 3 products

+5
NPS in R

+90k
surveys completed



Customer Experience Programme

The loyalty of the Group's customers is one of its main assets, since this gives rise to a sustainable competitive advantage. For the Group, customer satisfaction is key to their loyalty and therefore it strives continuously to offer, more than a service, an experience that links the customer with the brand and its corporate values.

The Customer Experience (CEX) Programme is based on corporate values and studies the ten key moments in the Group-customer relationship process. All customer opinions expressed through satisfaction surveys, reasons for churn, brand image studies and the observation of daily experiences are brought together in an action plan which aims to provide ever-improving service and ascertain market trends. In 2018 the Customer Experience team was made up of 107 persons who measure satisfaction at each of the key moments and work to resolve any unsatisfactory experiences, enabling the Group to continuously improve. At the end of 2018 over 90,000 surveys had been answered by the

Group's customers, with an average satisfaction level of 70.8%.

In addition, in 2018 the Group began to measure the NPS (Net Promoter Score) and the ENPS (which takes loyalty into account) in order to attain a 360° view of its customers and find out their relationship with the three brands. The NPS guides these efforts towards the fulfilment of the Strategic Plan 2017-2019 as the main axis, taking into account the results of high-level decision making since it analysed how the various action levels impact loyalty and the Group brands' market share. This year the study revealed that customer care and trust in the brand are the greatest strengths, and highlighted the technical service provided in the three businesses.

The strengths of the Group's brands are: Euskaltel "brand strength", R "satisfaction" and Telecable "ease of use of services". The +5 NPS and +10 ENPS in R should be noted, its customers being the most satisfied in all the factors analysed.



Platinum Contact Centre Awards 2018

Telecable Asturias received an award for the best customer experience. This recognition rewarded the knowledge and creativity applied in the implementation of processes for improving customer service. This success was due to customer accompaniment the use of cutting-edge digital transformation technology and a highly motivated and trained human team.



+10
ENPS
in R



Experiential stores

In 2018 the Group made a considerable effort to enhance the customer experience through the remodelling of the Euskaltel stores in The Basque Country and the opening of new stores in its expansion towards Navarra, as well as in La Coruña, the main R store having been completely refurbished. The Retail Transformation Plan took into account the incorporation of new services, with improved work systematics and better results in terms of experience and conversion, aligning customer experience with the Group's corporate values: proximity, honesty, innovation and efficiency.

The store transformation has been accompanied by a specific training and communication plan for professionals, as well as a remuneration

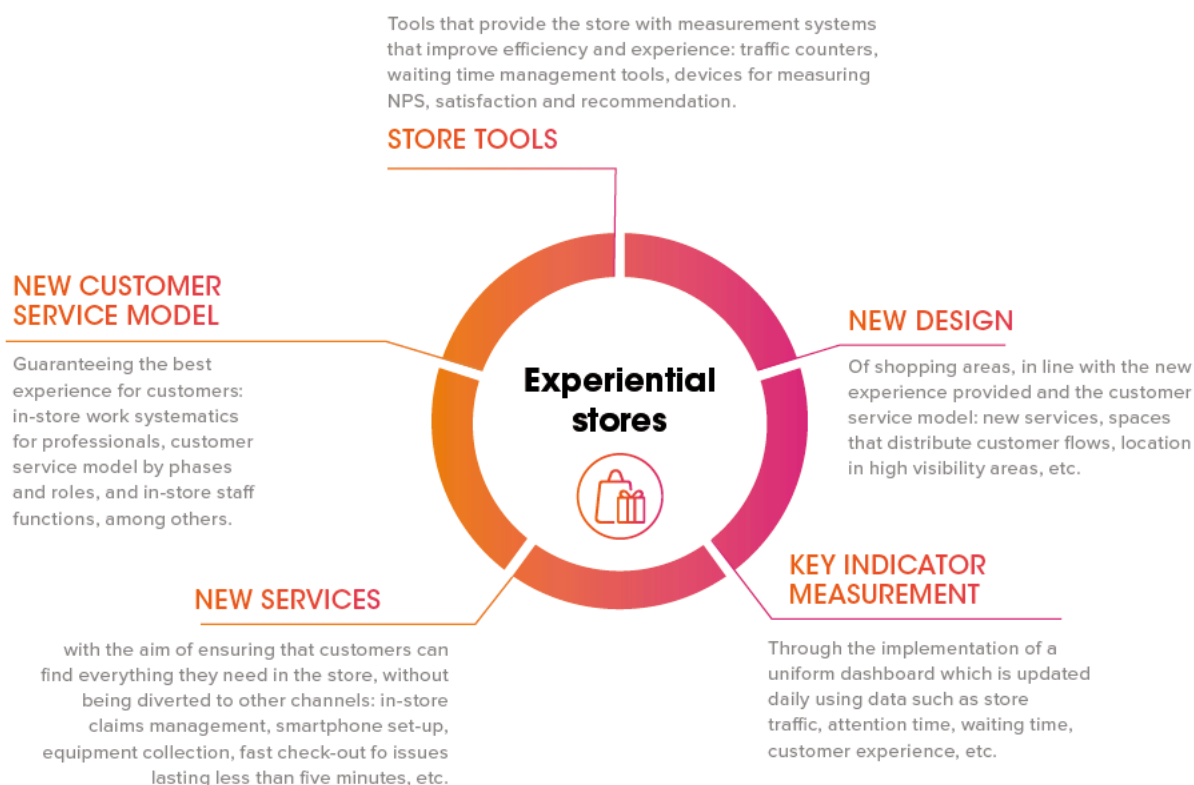
model that values customers' experience. Campaigns have also been carried out that reflect the proximity between the public and store professionals, who are willing to answer any questions from customers.



Training in stores

In 2018, R, Euskaltel and Telecable stores hosted free courses to learn how to get the most out of mobile devices. This initiative encourages access to smartphones for people of all ages, while promoting responsible use.

Most stores now have the following characteristics:



“We are firmly committed to giving our customers the best experience: the best experience in broadband, based on the high technological capacity of the DOCSIS 3.1 network, complemented with the best Wi-Fi experience at home, at work and outdoors; the best TV experience supported by the Deco 4K and the agreement we are concluding with worldwide content leaders like Netflix; and the best mobile service for families in our markets. This global best experience continues to position us as the preferred operator in our markets and ensures a stable customer base”.

FRANCISCO ARTECHE
Euskaltel Group's CEO

**TAN FÁ-CIL
CO-MO
PUL-SAR UN
BO-TÓN**

Ahora con el Deco 4K de Euskaltel, puedes ver tus series favoritas de Netflix directamente en tu tele.

DECO 4K

LA CASA FLORES
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TODAS LAS SERIES YA DISPONIBLES EN NETFLIX

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euskaltel

Consulta la forma de ver la tele con el Deco 4K. Disponible con la TV Premium Select de Euskaltel. Suscripción a Netflix no incluida. Puedes usar tu tele para ver Netflix de cualquier dispositivo de Euskaltel. Dependiendo de la modalidad de suscripción del servicio de Internet, de la configuración del dispositivo y de la capacidad de contenido. www.netflix.com/espanol/es



Personalised services

In 2018 the Euskaltel Group continued to create an emotional bond with customers through the launch of new products and increasingly personalised services, seeking to respond to the main demands of users both at home and on the move.

In addition to providing high quality services, the products and services designed and developed by the Euskaltel Group have addressed the customers' real needs, responding to their demands, bringing us closer together and achieving a level of personalisation that allows us to forge strong, lasting relations.

WiFi 360

Due to the importance and universal presence of Wi-Fi services inside and outside the home, during 2018 the Euskaltel Group developed new functionalities and improvements in order to offer a comprehensive Wi-Fi service.

WiFi Home and SOS WiFi

Through the WiFi Home and SOS WiFi services, the Group offers its customers an audition of the Wi-Fi service in all new customer installations, enabling the optimisation of home Wi-Fi services and the inclusion of new and better equipment, in particular the introduction of MESH technology.

3ollosR/Euskaltel Life

Increasing IoT functionalities, the Euskaltel Group has incorporated new elements into the service, such as heating control and continuous recording. The mobile localisation and alert service has also been developed and launched, which provides information on people's location in a simple, non-intrusive manner for all customers.

Voice assistant

The development of the Group's own voice as-

sistant commenced in 2018. This would enhance apps thanks to the incorporation of vocal interface and would also entail the creation of new products that will change how customers interact with services, such as TV.

"WiFi Vacaciones" and "Internet Conmigo"

In 2018 the "WiFi Vacaciones" service in Euskaltel and "Internet Conmigo" service in R were also improved with an increase to 15 GB in the two data credits for high-value customers, compared with 5 GB offered to date.

Land-line and mobile offer

New convergent offer

During 2018 the Group has worked on the joint launch in the three territories of a new convergent offer tailored to the market and customers' needs with a specific set of services, benefits, content and equipment that seeks to cover users' needs and therefore increase their satisfaction with and commitment to the brand. It was launched in December in Euskaltel and will be rolled out in the three territories during the first quarter of 2019.

Unlimited credit

During the summer of 2018 the new unlimited mobile data packs were launched in Euskaltel and R, which allow certain content to be enjoyed, depending on the pack chosen, without having to pay for the data consumed: unlimited Whatsapp & Social Networks, unlimited Music, unlimited Video and unlimited Weekends.

International credit

In 2018 a new international call credit service was introduced for both land-line and mobile calls that caters for a segment of customers that need to contact people abroad on a regular basis.

Other services

Telecable T-Ayud@

In July, a technical support service for residential customers was launched, which includes a 24-hour Incident resolution guarantee, an annual review of the Wi-Fi service, equipment set-up and maintenance, advice and re-

customers' national rates. As an improvement to the 4G roaming service, since the summer of 2018 customers of the three brands have begun to enjoy 4G technology when travelling abroad (where it is available).

New Internet projects

Docsis 3.1

As a broadband leader, this new technology has been available since the end of 2018 in almost all of the Euskaltel Group's area. This equipment represents a major step forward in the evolution of services in terms of functionalities and efficiency of broadband Internet access.

New alliances

Agreement with Microsoft

The Euskaltel Group and Microsoft have reached a strategic agreement to promote the digital transformation of corporate customers and the Company's internal digitalisation. The Euskaltel Group wishes to make available to its customers all the opportunities offered by technology to increase their competitiveness and maximise the potential of an innovative technological ecosystem, with services that ensure a rapid, safe and effective response to changes in the market, while continuing to guarantee availability, efficiency and quality, irrespective of the organisation's size.

New agreements on TV content

Netflix

The Euskaltel Group has integrated the Netflix application into its 4K decoders and is the first operator in Spain to incorporate a direct access from its remote control, enabling the integration of this service into the operator-customer bill.

Football in Galicia and Navarra

An agreement has been reached with La-



commendations for the best use of the Telecable services and free travel by technicians to customers' homes.

Promotions for students

For another year, R and Telecable have launched simple offers without any tie-in period tailored to the student-user sector, offering high speed at a lower price.

Improved 4G Roaming service

In 2017, EU roaming started being included in

Liga to include the LaLiga 123 TV channel in Galicia and Navarra. This channel broadcasts football content 24 hours a day, highlighting the broadcasting of 10 live matches per day from the 2nd Division.

TV display unification

Work has been undertaken to unify contracts with content providers in order to standardise the content proposal in the three brands.

Disney Pop Pick & Play

An agreement has been reached with Disney to incorporate new non-linear content in the Euskaltel Group's content offer. It includes previews prior to broadcast on the linear channel, full seasons of series and games.

Evolution of the TV service

Android TV

At the year end, the Euskaltel Group's Android TV decoders numbered more than 83,000 in total, making it the reference operator in the national market for this equipment. The Group has also worked with the suppliers Technicolor and Sagemcom in order for their decoders to be marketed across the entire Euskaltel Group, which entails the advantage of not being dependent on a single supplier.

Equipment integration

A network integration has been carried out to optimise processes and offer TV customers a better service. In this integration, the current service has been maintained and convergent decoders that can be also used in the growth process have been selected and validated.

Continue watching

This new service has been launched which improves user experience in the TV service, since it allows customers to continue viewing non-linear contents that they had not watched in full.

New services for companies

Professional WiFi

WiFi is an increasingly critical service for small businesses due to the growing number of activities it supports (wireless POS terminals, sensors, mobile device connections, etc.). This service is based on fully managed professional equipment, offering greater coverage and capacity for simultaneous connections.



3Ollos/Euskaltel Life

In 2018 the IoT digital home initiatives were extended to businesses, allowing customers to enjoy the sensorization of their organisations: surveillance cameras, temperature sensors, access control or energy efficiency, among others.

Telco Solutions for SMEs

The services offered to SMEs grew considerably in 2018, including a convergent and unified telecommunications offer in any location thanks to the agreement to utilise the Orange fibre network or the Telefónica FTTH NEBA.



nativos R



“Mi primer contrato” and “Nativos R”

Children begin using mobile telephones at an increasingly early age. Accordingly to the latest studies, nearly 30% of children under 10 have a mobile telephone. For this reason, the Euskaltel Group has developed initiatives such as Mi primer contrato, a written commitment on mobile telephone use, or Nativos R, free informative talks on new technologies to encourage responsible use, complemented by other parents' experiences and advice aimed at conveying certain values to the family's younger children.

During Christmas in 2018 these campaigns were relaunched with the aim of making families aware of the importance of sensible mobile telephone use by children. The Nativos R actions were carried out during the last quarter of the year in eight locations in Galicia. The last talk was in December. This initiative is part of the measures taken under the Digital Plan of AMTEGA (Agency for the Technological Modernisation of Galicia).

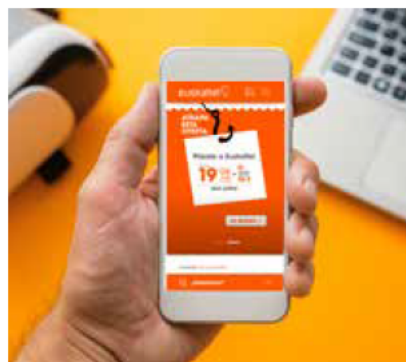


Accessibility

In 2018 Euskaltel launched a new public website tailored to mobile devices and tablets, adapting content for improved reading and web browsing.

In addition, this website has been created with a new design system based on Atoms that will enable progress in the construction of accessible web components and facilitate the usability of the entire digital environment.

The Group has developed the site with the help of expert web app usability agencies to design an adaptation project for people with vision difficulties by applying technology as the Company's main Inclusion method.



Responsible advertising

The Euskaltel Group, based on one of its corporate values, promotes and encourages an honest relationship with all stakeholders. In this respect, clarity in rates and responsible advertising are essential to carry out its activities.

To monitor responsible advertising, the Group performs annual billing quality audits and notifies customers of rate changes two months in advance, one month being required by current regulations. By means of these control tools, the Group seeks to strengthen its relations with customers and foster transparency in its relationships.

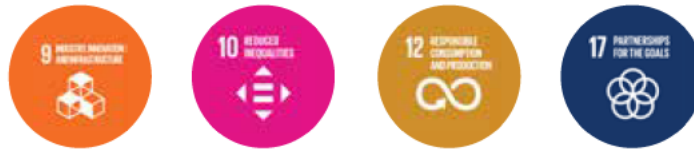


Branching out into new markets

At the year end, a total of over 4,500 contracts had been concluded in the new areas in which the Euskaltel Group has started to operate. During 2018 three new stores were opened in The Basque Country and the expansion into new territories such as Navarra and Castro Urdiales (Cantabria) has continued, culminating in five experiential stores by the year end. In addition, in 2019 the Group is preparing to

branch out into new areas such as León, Cantabria and La Rioja. An agreement has also been reached with the RACC of Catalonia to provide Euskaltel Group convergent services to all members, under the RACCtel + brand. To reach new customers, the Group has designed new alternative channels such as stands or shop trucks that bring the brand closer to end-customers.





Sustainable products and responsible network deployment

The Euskaltel Group has carried out various initiatives during 2018 to provide its customers with the best service, implying increased coverage, inclusiveness and sustainability, developing access in rural areas and causing the lowest possible environmental impact. During the year the network has grown by 673 km, with the aim of improving speed and access to online communications.

The main activities carried out are described below:

Access to the WiFi network by Paradores de Turismo

Telecable will handle access to the WiFi network by the Spanish Paradores de Turismo hotel chain. This service will be provided in more than 90 establishments around Spain, as well as for its central offices.

Network deployment in rural and difficult access areas

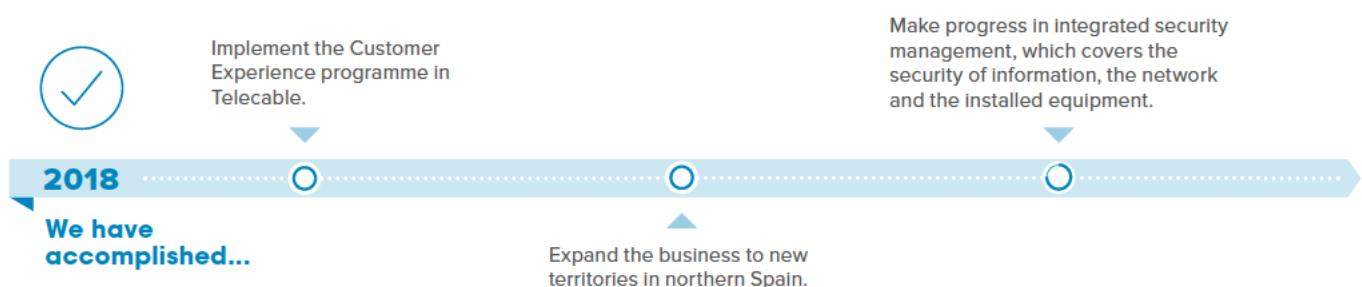
In 2018, R commenced activations in Galician locations such as Miño, Abegondo, Cerceda or Muros which have been added to the 118 Ga-

lician municipalities and 935,000 properties able to receive ultrafast Internet access subsidised by the ERDF. The Group thus facilitates access to advanced services for population centres in which no other operator offers these services, helping to overcome the digital divide caused by geographical dispersion and terrain difficulties.

Overcoming the digital divide

R and Telecable have been awarded an implementation project to provide high-speed and very high-speed broadband services in areas of Galicia and Asturias without any current or planned coverage, with the aim of providing low density populations with the necessary communication services. The PEBA Plan will enable the extension of new generation networks to rural areas, with 32,000 new properties and a positive impact on the territory, enhancing their digital development. R has sponsored and participated in Mobile Week Coruña; over one week and in various parts of Coruña and the surrounding areas, events (talks, workshops, conferences, exhibitions, etc.) were held to involve the community in the technological revolution.

Assessment of compliance with 2018 commitments



Grados de cumplimiento de los compromisos adquiridos

☒ Fulfilled
 ☐ Advanced
 ☐ In progress
 ☐ Initiating measures

Mercado de la Cosecha

Together with Hijos de Rivera and Gadisa, R has taken part in this rural support action in which, over two days, culture and innovation are combined and visitors are offered new products by innovative Galician companies that display and test their new products. R provides Internet services to this fair and has a stand with traditional games for children.

Collaboration with Tucycle

Telecable has collaborated as a technological partner in this innovative sustainable urban mobility project in Gijón. Through this application, users can use the bicycles distributed around the city for as long as they require. Since its launch more than 11,000 users have enjoyed the service, contributing to sustainable mobility and reducing pollution in the city.

Collaboration with the Galicia Federation of Associations of Persons with Hearing Difficulties

Under a collaboration agreement, R offers preferential conditions in the contracting of telecommunications services for people with hearing difficulties. Thanks to this collaboration, regular contacts are maintained to check that the services meet these persons' needs.

Collaboration with the city council of Donostia-San Sebastián for the care of the elderly

Euskaltel has entered into a collaboration agreement to support the development of the "OKen-

casa" pilot project, whose objective is to create a digital support system for caregivers of dependent elderly people. It also aims to provide the public authorities in charge of the community health area with data analysis mechanisms that help make their management more efficient and anticipatory. This project was one of 15 selected to be part of the ADINBERRI programme within the Etorkizuna Erakiz strategy of the Gulpuzkoa provincial government, the purpose of which is to support R&D+I activities in the region's Silver Economy.

Responsible network deployment

To build or deploy the Network, the Euskaltel Group has policies for the selection and reuse of all the equipment required to offer the service, with the aim of generating the lowest possible environmental impact, complying with all applicable environmental regulations (waste, electrical and electronic equipment, etc.).

Replacement and removal of Internet equipment

In 2018, the Euskaltel Group provided its customers with a new model using WiFi AC technology to improve user experience, removing old equipment and assuming responsibility for the waste generated by these replacements.

2019 Commitments



Extend the Customer Experience programme to other key services in the Company and for all its territories, including the Expansion.

Continue the expansion of the business across Spain.

2019

We are going to work to...

Increase the certificates that guarantee suitable integrated security management.

PILLARS OF THE EUSKALTEL GROUP STRATEGY



Diversified
growth



Operational
excellence



Distinctive
experience



Customer value
protection



Natural Capital

The commitment to excellence in environmental management and the development of the Environmental Master Plan allows the Euskaltel Group to effectively address environmental challenges through the management of its environmental footprint when providing its services.

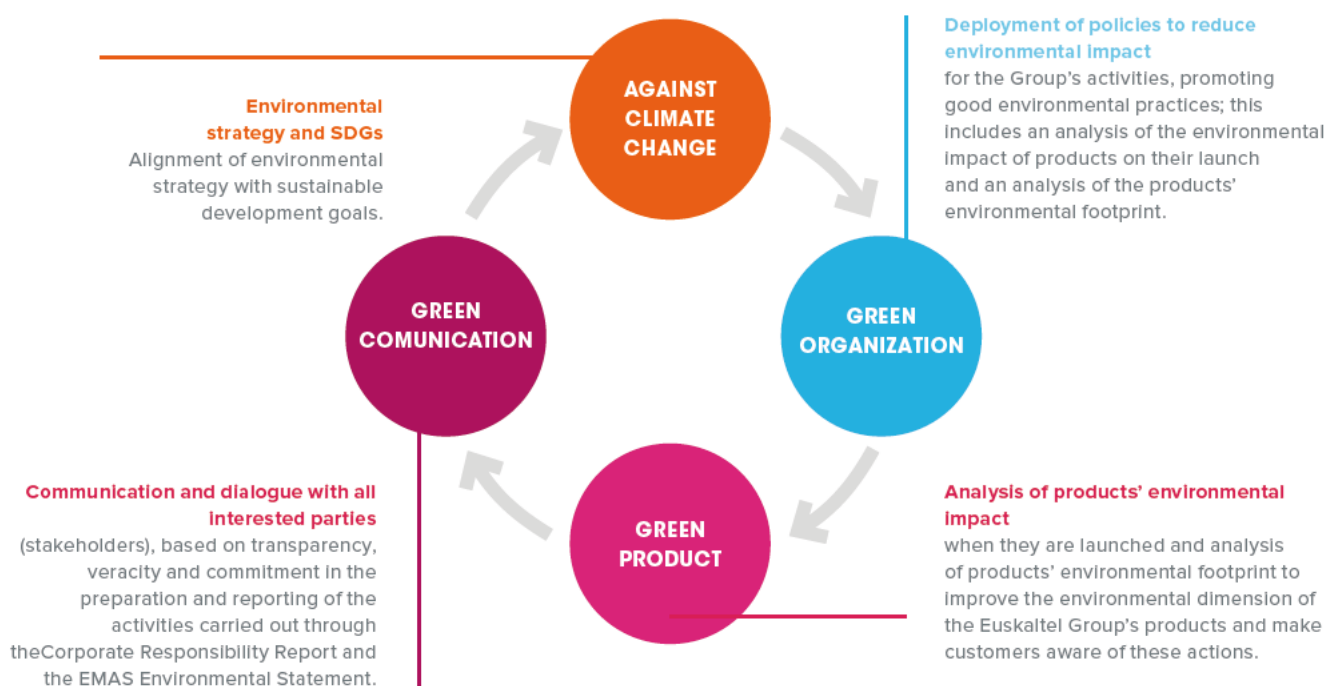
Contributing to our daily efforts to achieve an environmentally sustainable digital business

We are aware of the environmental challenges we face, which is why we strive to promote a responsible attitude, to continuously improve management of the environmental aspects of our activity and to reduce the Group's environmental impact in a context of growth and technological change.



The Euskaltel Group has continued to develop its Environmental Master Plan in 2018, reflecting its commitment to the struggle against climate change and its effects, and the efficient use of resources. The Plan, together with the Integrated Management System Policy that includes the Environmental Policy, is the main guideline for Natural Capital in its contribution to the Sustainable Development

Goals (SDGs), focusing in particular on SDG 12 "Responsible Production and Consumption" and 13 "Climate Action". This Master Plan lays down guidelines aimed at reducing the Group's carbon footprint, improving environmental management and therefore enhancing the contribution to the 2030 Agenda in each of the autonomous regions in which the Euskaltel Group is present.



During the year several synergies were identified among the Group's three businesses and new high quality services have been implemented which are increasingly efficient and environment-friendly.

Lastly, the Group has continued to implement its environmental management system in accordance with internationally recognised standards and certificates and with the highest compliance standards, such as the ISO 14001 certificate implemented in the three Group companies during 2016-2018.



Actions against climate change

The Euskaltel Group has a public commitment towards caring for the environment which is materialised through its Environmental Master Plan. One of the pillars of the environmental strategy is to act against climate change, with initiatives to reduce impacts that affect greenhouse gas emissions.

In addition, through its support for initiatives such as forming part of the #PorElClima Community, the Group is involved in a pioneering initiative that brings together the commitments of individuals, companies, organisations and public administrations that contribute through their actions to the struggle against climate change in accordance with the guidelines set by the Paris Agreement.

Likewise, corporate buildings are also becoming increasingly efficient and sustainable, implementing measures such as the purchase of green energy for supplying corporate buildings. The agreement for the Basque Country with Iberdrola guarantees long-term energy purchases (Power Purchase Agreement) for the supply of electricity based on renewable assets. This agreement was the first PPA signed between an energy company and a telecommunications operator in Spain.

The Euskaltel Group takes part in the Basque Eco-design Centre, an entity based in the Basque Country that operates within a collaboration framework between private sector companies and the Basque Government, which in 2018 has carried out three main lines of activity:

- Corporate Environmental Footprint and Integration in Environmental Management Systems (EMS).

- Environmental traction in the supply chain.

- Reputation and green marketing.

Greenhouse gas emissions and climate change

In line with its strategy against climate change and as a necessary step for the reduction of CO₂ emissions, the Euskaltel Group calculates the carbon footprint of its activities and has applied to the Ministry for the Ecological Transition to be entered in the carbon footprint, compensation and absorption project register. A Greenhouse Gas report has therefore been drawn up which quantifies both direct and indirect emissions.

The Group makes and publishes the annual calculations of GHG emissions, defines a plan for their reduction and has them verified by a qualified third party. The Group calculates emissions that are controlled by the organisation, both direct emissions from sources belonging to or controlled by the organisation (scope 1) and indirect emissions derived from the generation of the electricity consumed (scope 2). In the Euskaltel Group, the main CO₂ emissions are due to indirect emissions. Therefore, the main efforts and measures implemented relate to green energy consumption and the reduction of energy consumption.

As well as being an exercise in transparency, measuring the carbon footprint implies a public commitment towards the objective of minimising GHG emissions. Accordingly, the Group establishes emission reduction plans annually which mainly consist of measures to reduce the consumption of electricity and fuel.



Link to EMAS III certificate

https://www.euskaltel.com/webektest/GaleriaCorporativo/Documentos/nosotros/responsabilidad_social/2018/2018-declaracion-ambiental.pdf



Managing environmental impact

In addition to its commitment to fight climate Change, the Euskaltel Group is responsible for implementing environmental management that minimises negative environmental impacts, encouraging good environmental practices across the Group.

The Group's Environmental Policy is the basis for the Company's environmental management, included in the Management System Policy that also includes the Quality and Health and Safety policies.

On a complementary basis, the Euskaltel Group's commitment to environmental management excellence was the starting point for establishing an Environmental Management System in accordance with ISO 14001 (certified by AENOR since 1999). Accordingly, and with the objective of always being in line with the Basque Environmental Strategy, Euskaltel decided on a voluntary basis to join the EMAS III Regulations in 2004. Since 2018, all Group companies have adhered to the EMAS regulation.

The verified EMAS III Environmental Statements of the Euskaltel Group companies highlight their commitment to transparency with stakeholders.

Likewise, for the second consecutive year the Euskaltel Group General Shareholders' Meeting was held under 'Erronka Garbia' certification, granted by the Basque Government for organising the General Meeting with a focus on environmental sustainability. The holding of the 2018 General Meeting under this sustainability and environmental protection approach has resulted in its participation in a reforestation project in the Urdaibai Biosphere Reserve. This emission compensation project aims to minimise the potential negative impacts of the organisation of the General Meeting on the environment, reflecting its commitment towards environmental protection in the area in which it operates.



See Euskaltel's environmental statement I

https://www.euskaltel.com/webektest/GaleriaCorporativa/Documentos/nosotros/responsabilidad_social/2018/2018-declaracion-ambiental.pdf



See R's environmental statement

<https://legal.mundo-r.com/legal/sites/default/files/imce/pdfs/declaracion-ambiental-gal.pdf>



See Telecable's environmental statement

<https://web.telecable.es/documents/36258/487475515/Declaraci%C3%B3n+medioambiental+TELECABLE+DE+ASTURIAS+firmado.pdf/6ed081b9-0dd4-4feb-8d03-231079121a1d>

The Group assesses each environmental issue based on the criticality of the impact associated with it, bearing in mind both direct and indirect aspects and ordinary, extraordinary and emergency conditions. Key environmental aspects are those on which minimisation and control efforts have been focused, and which the Group has emphasised when defining environmental objectives. Each of the Group's companies has its own key aspects, the consumption of energy and the generation of hazardous waste (lead-acid batteries) being common to the three companies.

The Euskaltel Group is aware of the impact of energy consumption by its activities and therefore has chosen to implement an Energy Management System based on the UNE-EN ISO 50001 Standard, the purpose of which is to continuously improve management of energy consumption and reduce Greenhouse Gas (GHG) emissions. In 2018, GHG emissions rose by 1,294 Tn. CO₂ equivalent (5.6%) on 2017, taking into account scopes 1 and 2, due to the increase in services provided. However, through the agreement with Iberdrola, Euskaltel plans to minimise its environmental footprint by purchasing green energy.

This is reflected in the roll-out of the 4G (LTE) network underway since 2015, on the basis of criteria that ensure responsible network deployment, in strict compliance with electromagnetic field regulations.



More information in Note 3.18 of the annual accounts



Resource consumption management

Efficiency in the use of resources is both an economic and an environmental issue. In recent years, the changing habits in resource consumption and the improvement in the efficiency of the Euskaltel Group processes have shown that it is perfectly possible to progress towards an efficient use of resources.

For this reason, the Group continues to promote the efficient use of resources (water consumption and energy consumption) and through the environmental and energy management systems implemented in the Group,

it is possible to measure, evaluate and act in order to continue implementing measures to enhance energy efficiency and optimise the consumption of resources in its operating processes.

To reduce fuel consumption, the Euskaltel Group has taken measures such as prioritising the use of company fleet vehicles instead of private cars when travelling for business reasons and the use of remote communication technology to prevent staff having to travel, leading to savings in travel and time. Addition-



The Euskaltel Group firmly believes that a company's function does not conclude with the achievement of brilliant results, but that it must collaborate with and be fully committed to the growth of the community in which it operates and the society by which it is trusted.

ally, the Euskaltel Group has worked to raise awareness and publicise its commitment to excellence in environmental management through the ISO 14001 standard, planning and carrying out inspections of work contracted by the Group in which third parties may generate waste in order to encourage waste recycling.

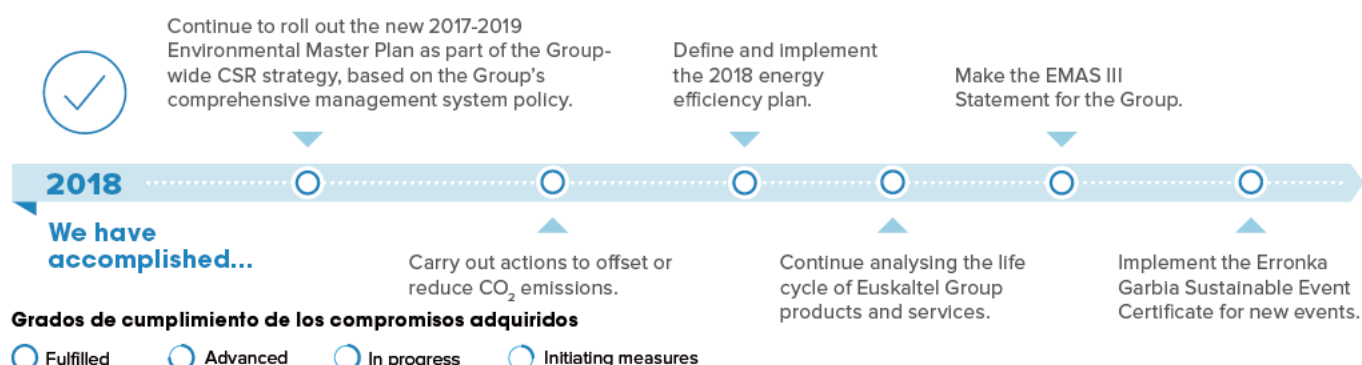
Circular economy

The commitment to responsible resource management is a key element in the Group's operations since, in the course of its business, the Euskaltel Group and the other companies in its sector market products which must be managed correctly when their useful lives expire, particularly electrical and electronic equipment (EEE) such as decoders, cable modems and routers. In addition, the innovation cycles of EEE are becoming shorter and the replacement of devices is accelerating, converting EEE into a growing source of waste. Measures must therefore be taken to prevent this waste from being generated and to encourage the reuse of equipment.

Aware of all this, the Group implements procedures for recycling and reusing equipment that encourage the elimination and reduction of waste, offering the necessary tools to generate the lowest possible impact on the environment. In this respect, of all customer equipment placed on the market in 2018, 63.8% was reconditioned, reducing future use of natural resources. Furthermore, with the same aim of reducing the quantity of resources generated directly or indirectly by its activity, in recent years the Euskaltel Group businesses have made available mobile device collection points in their stores, collaborating with the NGO Alboan.

Regarding other types of waste generated by the Group's activity (alkaline batteries, button batteries, etc.), employees can dispose of this waste generated in their homes by using the containers made available by the Group at their offices.

Assessment of compliance with 2018 commitments



2018 ENVIRONMENTAL FOOTPRINT DATA*

The trends in and results of the Euskaltel Group's environmental performance in terms of materials, energy and natural resources use, as well as the main wastes generated, are set out below.

GHG Emissions (t. CO₂ eq.)

	2016	2017	2018
Direct (Scope 1)	915.83	1,184.85	1,255.04
Indirect (Scope 2)	9,479.44	21,893.41*	23,117.53
Other indirect emissions (scope 3)	259.60	320.40	332.72

* Data recalculated using the MITECO electric mix for 2017.



-25%

commitment to reduce
GHG emissions in 2020

Material and water consumption

Related to consumption of the most relevant materials for the organisation and the use of water

	2016	2017	2018
Papel (t)	141.11	155.78	188.23
Cable (t)	79.50	73.31	76.32
Equipment (t)	200.90	180.92	159.24
Water consumption (m ³)	6,039	8,138	7,296



-12%

consumption of
equipment

Overall energy consumption

Related to electricity and use of diesel, both internally (generators and company vehicles) and externally (employee vehicles)

	2016	2017	2018
Electrical energy (Mwh)	57,133.77	65,939.54	66,356.56
Diesel (internal) (Mwh)**	563.41	531.11	602.17
Diesel (external) (Mwh)**/**	641.96	842.17	848.24
Natural Gas (Mwh)	-	109.43	129.33
Energy intensity (kwh/producto)*	24.46	24.12	23.10
Total energy****	58,339.14	67,422.24	67,936.30



-4%

energy
intensity

* Energy intensity is calculated by dividing total energy consumption by the number of products placed in the market.

** Diesel consumption in MWh is calculated using the conversion published in the GRI 3.1 Guide (1 tonne diesel = 43.33 G-Joules).

*** In the case of Telecable, a conversion factor of 0.084 l/km has been applied for diesel.

**** Electricity consumption has increased by 514 Mwh due to the rise in products supplied to customers, and energy intensity has decreased by 1 kwh/product, entailing a 4% reduction.

Waste generation

	2016	2017	2018
Non-hazardous waste			
Paper and card (t)	28.93	22.73	24.54
WEEE (t)	59.74	28.21	145.33
Hazardous waste			
Acid lead batteries (t)	39.33	59.69	37.23
Fluorescents (t)	0.60	1.06	0.43



-38%

reduction in
hazardous
waste

Compromisos para 2019



Continue deploying the 2017-2019 Environmental Master Plan, as part of the company's group-wide CSR strategy based on the Group's comprehensive management system policy.

Define and implement the 2019 energy efficiency plan.

Renew environmental commitments acquired through certificates (EMAS and ISO 14001).

2019

We are going to work to...

Develop awareness measures for waste.

Carry out actions to offset or reduce CO₂ emissions reduction and management, as well as for energy saving.

PILLARS OF THE EUSKATEL GROUP STRATEGY



Diversified
growth



Operational
excellence



Distinctive
experience



Customer value
protection

Relationships

The Euskatel Group promotes diversified growth through institutional relations, sponsorships and public relations, encouraging the economic and social development of the communities in which it is present.

Contributing to the creation of alliances to generate sustainable development

We believe that the success of any relationship requires good communication and therefore our commitment is based on using technology to foster communications between people, creating alliances which contribute to the socio-economic development of the local community.



Relationships are based on the Euskaltel Group's mission and vision: being a telecommunications operator with cutting-edge services and a responsible management model which is committed to the local socio-economic environment. In short, it seeks to contribute to the socio-economic development of natural territories through business and social

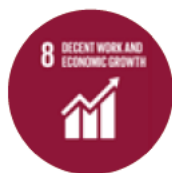
encourage the development of innovative entrepreneurship in the local community and the development of projects related to SDG 9.

The Euskaltel Group considers that institutional activity is an essential tool for listening and committing to its stakeholders in the territories in which it operates, particu-

Euskaltel Group's mission and vision: being a telecommunications operator with cutting-edge services and a responsible management model which is committed to the local socio-economic community.

commitment. Commitment to local development is a distinguishing value of the Group in relation to its competitors, contributing significantly to SDG 8 through the Euskaltel, R and Telecable businesses. In this connection, the Euskaltel Group actively promotes alliances that contribute to the 2030 Agenda through SDG 17 for the sustainable development of the local communities in which it is present, promoting institutional alliances, sponsorships and Group public relations. In addition, with the Euskaltel Konekta Foundation as the primary player, initiatives are promoted that they

larly to regulate expectations and the fulfilment of its demands, seeking to implement them in the implementation of projects and initiatives. The Euskaltel Group therefore manages its relations with public administrations, companies, community players, customers and clusters, among others, from a full 360° vision that ensures a broader knowledge of institutions, associations, customers and partners in general, forming a network of alliances that generates synergies in institutional, business, sectoral and social collaborations.



Towards sustainable economic growth

Through its Corporate Social Responsibility strategy the Group seeks to contribute to and be oriented towards the creation of value for all stakeholders, maintaining the commitments and values that underpin the organisation and taking into account its firm commitment towards local issues, transparency, management excellence, corporate governance, respect for human rights, gender equality and equal opportunities, the alignment of suppliers

with Corporate Social Responsibility policies and a responsible contribution to taxation.

Responsible payment of taxes

The Group impacts the economic development of the Basque Country, Galicia, Asturias and Navarra through the tax contribution generated by its business, thereby fulfilling a double economic and social function and complying with the transparency principle.

Economic value generated (€ '000)	2016	2017	2018
Revenue	561,426	609,275	674,642
Other operating income	360	524	616
Financial income	37	228	918
	562 M€	610 M€	676 M€

Economic value distributed (€ '000)	2016	2017	2018
Purchases	26,245	22,946	33,457
Subcontracted work	103,520	109,463	127,980
Wages and salaries	38,365	42,452	45,847
Other operating expenses	122,149	151,438	143,363
Financial expenses	47,891	49,109	49,112
Dividends paid	0	54,665	49,603
Corporate Income tax and other taxes	22,215	29,170	32,696
	360 M€	459 M€	482 M€

Economic value retained (€ '000)	202	151	194
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TAXES PAID IN 2018



58 M€

VAT & GCIT



13 M€

Levies and business tax



26 M€

PIT & SS



15 M€

CIT

112

million euro in its own taxes and tax collected



Responsible supply chain management

The Euskaltel Group is committed to responsible supply chain management and therefore its efforts are centred on generating trusting and mutually beneficial relationships with local suppliers that facilitate their business relations.

rational efficiency and customer experience are key factors in the Euskaltel Group's day-to-day business, it is essential to ensure the success of providers' facilities and supplies and maintain close relations with local suppliers. This relationship is strengthened by enhancing the capacities that the Group offers its suppliers through training and the regular evaluations



These business relations are carried out within the Group's compliance framework through the acceptance of the Company's code of ethics, which ensures that all business relations are carried out respecting key issues such as health and safety at work, service quality, respect for the environment and consumer protection. For this reason, in 2018 the acceptance of this code was included in all new contracts and with the main traditional suppliers. During the year suppliers have started to take part in the acceptance of the Group's code of ethics. The Euskaltel Group has also made a particular effort to convey the Company's corporate values and culture to the 781 suppliers with which it works. As op-

suppliers of whom 55.5% exceeded a purchase volume of €10,000. The high volume of services purchased means that purchases in the areas in which the Group operates have a significant weight, at 39.2%. The remaining purchases are made in other countries, due to the complexity of the sector. However, in a year of changes, growth and synergies, particular attention has been paid to maintaining lasting agreements and the impact on the surrounding economy, maintaining strategic alliances in the Basque Country, such as the one with ZTE Managed Services Southern Europe, which accounted for 14.3% of the total purchase volume. No other supplier exceeds 4%, to guarantee the viability and sustainability of the responsible business.

Finally, 2018 was characterized by the unification of the purchasing process. The management system features a tool under which 100% of suppliers (and their employees) rendering services at the Group's facilities are duly accredited. When selecting its suppliers, the Euskaltel Group takes into account, as a key factor, the existence of an environmental management system for the assignment of contracts, as well as energy consumption for both cost and environmental reasons.

¹ The decrease in the number of suppliers is due to an internal administrative change whereby administrative creditors such as lessors, sponsors, associations, etc. are no longer taken into consideration for accounting purposes.



Social commitment towards the local community



+4M€

invested in
sponsorship



+150

partnerships with
local organisations



11

agreements
with educational
institutions

Main CSR initiatives

In 2018 the Euskaltel Group collaborated with more than 150 community organisations through its three businesses and 50 other entities thanks to the Euskaltel Konekta Foundation, supporting the technological development of the local community through the promotion of new technologies and forging relationships of trust with all stakeholders. The activities carried out by the Euskaltel Group in the Corporate Social Responsibility area can be grouped into four basic pillars that also define the Foundation's lines of action:

Projects to promote new technologies Encounters network

The Euskaltel Group organises IT events where technology fans and professionals can share their knowledge. The 26th edition of the Euskal Encounter was held in the Bilbao Exhibition Centre at Barakaldo. The event was a great success, with 5,000 computers installed in the Centre and over 10,000 visitors. As a novelty, talks and workshops were organised focused on educa-

tional institutions and groups at risk of exclusion due to the digital divide. Cybersecurity was again the main issue, and was the motto of Euskal Encounter 2018. In 2018 the Gipuzkoa Encounter was also held in Tolosa and the Araba Encounter in Vitoria-Gasteiz, in addition to the XGN R Encounter in Silleda (Pontevedra) and the Technium R Encounter in Orense.

Gamegune

The Basque Country's oldest e-sports competition celebrated its 19th edition at the Europa Palace in Vitoria-Gasteiz. The format of the competition was changed, with a list of finalists being made up by invitation in addition to the direct places awarded in various face-to-face tournaments. The games chosen were Hearthstone, CS:GO, FIFA19 and Clash Royale. To strengthen the tournament, the Gamegune Opens were held. These are tournaments and leagues from several video games that are held throughout the year and are open to anyone who wants to participate. This competition is arranged through an online platform.



Qué es la Fundación Euskaltel Konekta

The Euskaltel Konekta Foundation is a private non-profit organisation that helps to create and encourage connections between people, companies and initiatives in the context of the use of information and communication technologies through four strategic lines:

- Projects to promote new technologies
- Entrepreneurship and digital incubators
- Social technology
- Positioning of the Euskaltel Konekta brand.

R and Telecable Professorships

As a result of the agreements concluded with the universities of A Coruña, Vigo and Oviedo, two Professorships have been created related to the promotion of cultural, scientific and technological development, cybersecurity, video, new generation networks and, in general, the promotion of R&D+I projects and knowledge transfer. In 2018, 61 people attended these courses.

a school was provided with technological equipment to be used in technology classes in exchange for the presence of the brand at the location.

Buber Sariak 2018

Internet & Euskadi Buber Sariak competition organised by the Internet & Euskadi Association. Prizes were awarded to the best Basque technological projects, with 9 awards going to projects in the Basque language, free software, gastronomy and tourism, citizen participation, the agricultural sector, the machine tool sector, innovation, internationalisation, business and trade.

First Lego League

International robotics competition where 1,200 participants aged between 6 and 16 years solved a real problem related to science, technology and innovation. It is organised by Innobasque, the Basque Innovation Agency, with the aim of awakening a vocation for science and technology among young people, an objective that the Foundation endorses. On this occasion the teams faced the challenge of researching the human water cycle, building and programming an autonomous robot. R also participated in the Galician version of this initiative, offering Internet service at the event.

Global Innovation Day

Innobasque dedicated the latest edition of the Global Innovation Day to SMEs. This is the Basque Country's leading innovation event, which was held for the first time in San Sebastián. The edition focused on offering innovative solutions to SMEs, inspiring them to face new challenges. The Euskaltel Konekta Foundation was present at the conferences, debates and meeting spaces and worked on advising the 500 companies that visited their stand at the Kursaal in San Sebastián.

Innova

In April, the sixth Innova conference took place at the Guggenheim Museum, supported by the Foundation. It is the largest creativity and innovation forum in our country and aims to provide innovative tools and knowledge to businesses, professionals, entrepreneurs or students from different fields. There were more than 300 visitors and 29 lectures on such areas as digital marketing, communication, SEO, music, branding and creativity.

Support for knowledge and innovation in Universities

Through its Euskaltel Konekta Foundation, the Group has cooperated for many years with national and international universities, fostering the education and professional development of young people and promoting entrepreneurial culture and innovation within the new technologies framework. In addition, many of the social initiatives developed are implemented through agreements with educational institutions and in general with centres offering activities carried out in a family environment.

Women in Progress

With the aim of encouraging the choice of science degrees among female students, the Euskaltel Konekta Foundation has collaborated with the newspaper El Correo in the organisation of these conferences that were held in March at the Artium Museum in Vitoria-Gasteiz. For three days, 170 female students attended numerous lectures and workshops that sought to bring them closer to the world of technology.

Girls in Tech

In 2018 R worked with a global non-profit organisation focused on the commitment, education and empowerment of women in the technology area, participating in a webinar in which girls from different Galician schools and colleges were able to talk to women entrepreneurs who shared their experience of how they arrived in the technology sector.

Aula innova

Telecable has worked together with various educational institutions with the aim of promoting the development of young talent and entrepreneurship. For example, in 2018, through a sponsorship agreement with Jesuit Colleges in Asturias,

Entrepreneurship and Digital Incubators

Bind 4.0

Accelerator programme arranged by the Basque Government and aimed at driving the development of the best 4.0 Industry start-ups, fostering projects with the leading industrial companies and a comprehensive support programme. It also facilitates the identification of and contact with the best global talent, provides access to cutting-edge technologies and boosts the development of projects and 4.0 solutions. Euskaltel cooperated in two projects in this edition.

Orkestra

In collaboration with Orkestra (the Basque Competition Institute), the Group has taken part in the Digital Economy Professorship to prepare the DESI (Digital Society and Economy Index) Report, which provides a status report on the degree of maturity of digitalisation in Europe, Spain and The Basque Country.

StartUps Euskaltel, R and Telecable

Programmes that connect the technology, capacities and innovative community of Euskaltel, R and Telecable with StartUps, accelerators, customers and productive sectors. The aim is to make the technology, innovation and capabilities of the Euskaltel Group available to the young local companies selected.

Pont Up Store

Participation in the entrepreneurship fair whose main objective is provide opportunities to test products with the general public, supporting this entrepreneurial culture and providing new tools in workshops and competitions.

Innolab Bilbao

The Foundation has worked with Innolab Bilbao, an innovation platform supported by leading companies and institutions. Its objective is to create an ecosystem to generate employment in the digitization field, providing knowledge and solutions that local companies can incorporate into their business to become more competitive.

Plan Digitalent

A number of educational projects have been

carried out by R, as a member of the Plan to

promote Digital Talent in Galicia (Digitalent) implemented by the Galician regional government to help local social, labour and technological development. The main one is Crea R which



aims to foster entrepreneurial values and STEAM concepts among 7-13 year-old children through robotics workshops. In the same line, R is working on the development and start-up of the digital content accelerator Startups R DiCo Challenge that aims to generate employment in the sector and promote entrepreneurship and technological innovation in Galicia. In addition, under the AMTEGA (Agency for the Technological Modernisation of Galicia) plan, talks have been organised for the generation born before the digital era to demystify the utilisation of technology in these Nativos R chats.

Telecable – AJE Agreement

This is a collaboration agreement with the Association of Young Entrepreneurs of Asturias through which all members are offered special communications service conditions to help them grow and develop.

Collaboration with IDEPA and CEEI

Public-private partnership initiative with leading companies established in Asturias for the development of an innovative programme to enable acceleration and market traction for innovative start-ups.

En Conexión

First edition of the project organized by the ICT Cluster together with Telecable. This is an initiative to strengthen the synergies between innovative SMEs and Asturian trailblazer companies. Tecnología social.

Social technology

HETEL

The Group is a strategic ally of HETEL (Association of Vocational Training Centres), committed to professional training and the promotion of scientific careers among young people. Since 2009, HETEL has been developing the SHARE collaborative project in which about 60 students studying telecommunications systems and computer science from four different institutions participate every year. The students work in groups, advised by Euskaltel professionals, to develop the installation of various application servers in each centre, simulating a company with different locations.

Elhuyar

900 students from different colleges carried out scientific projects and research throughout the school year. The projects were presented to a jury that included Euskaltel Group professionals.

Health and welfare

Through technology, the Euskaltel Group is committed to the welfare of vulnerable people, carrying out various social action initiatives focused on the health of employees and other vulnerable groups.

Social technology alliances

In the Basque Country, Euskaltel belongs to organisations and associations that reinforce its image as an advanced telecommunications company, facilitate alliances in the economic, social and environmental areas and contribute to Euskaltel's digital society development goals. These include Ihobe, clusters GAIA and Eiken, Basque Ecode-sign Center, EUSKALIT and DigitalES.



Brand positioning and sponsorships

The Euskaltel Group is convinced that sponsorships and public relations are vehicles for creating a solid and consistent brand. They are also a communication tool that help to bring closer, position and consolidate the commitment to local growth by creating emotional bonds. The main value of these actions is to develop and promote interactions with interest groups on the basis of proximity, commitment and business sustainability, thereby contributing to greater emotional bonding and to our image as a responsible company, and generating links between people and companies.

In these events in which the Euskaltel Group brands appear in friendly environments at acts and events designed for enjoyment, learning and gaining experience, and where this social pay-back can be observed, the creation of value for the Group is reflected in the value added to technology by and for people in all the facets developed by the Company.

Music festivals

The Group has been present in festivals such as the three organised by Last Tour in the Basque Country: BBK Live, Kutxa Kultur and Azkena Rock. Stands were installed offering Wi-Fi to the whole audience, promoting the band among a potential audience of more than 125,000 people.

For its part, R sponsored the Resurrectionfest music festival, and, with the aim of publicising other disciplines such as local film art, it took part in the PlayDoc Documentary Festival, the FIC-BUEU short film festival and STREET STUNTS, one of the biggest urban culture festivals.

Cultural activities

In order to promote local culture, Euskaltel has sponsored various activities and institutions that share this same mission, such as the Sarean.eus Foundation project, which is a meeting point of digital media in Basque that aims to become a reference entity as a catalyst of technological culture. Similarly, R supports Galician culture in its day to day business on a transversal basis through specific initiatives such as financial support for the Museo do Pobo Galego to help in research, conservation, dissemination and pro-

motion of Galician culture. In the language area, R has been a pioneer thanks to its commitment to the use of Galician in all its communications from the outset.

For R, the use of Galician is a natural step which coexists with the rest of its identity and forms part of the brand as a sign of closeness to clients in Galicia and its confidence in Galician society and culture. R's commitment to Galicia goes beyond the purely technological sphere, hence its permanent defence of the use of Galician in its relations with customers and also as a sign of its identity which is intimately linked to the brand and to innovation and development in Galicia. Accordingly, all communications, advertising

In these events, where Euskaltel Group brands appear in friendly environments and in enjoyable educational activities, the Group's value creation is reflected in the value added to technology by and for people.

and business promotions are conducted in Galician, as well as the internal wording of work sites, the website, invoices, contracts, social networks and blogs. The same can be said for the explanations and corporate presentations made in guided visits to R's main Operations Centre. This company has a department that is specifically responsible for ensuring the correct use of the Galician language in external communications, where professionals have access to dictionaries and manuals to facilitate these tasks.

R participates actively in the Linguistic Normalisation Plan developed by the Linguistic Policy Department of the Galician Regional Gover-

nment and forms part of the Galicia Empresa Foundation, which promotes the use of Galician in the business sector.

This approach is the result of the Euskaltel Group's language policy, which promotes respect for the different languages of the regions in which it operates in order to guarantee the use of the language chosen by its customers in their commercial relations. It therefore encourages internal training and activities to stimulate the use of the language.

In the same vein, Euskaltel has a Basque Plan which organises meetings and actions related to the knowledge and use of Basque throughout the year. In 2018 we can mention its membership of the Euskaraldia project, which was held across the Basque Country. This pioneering project, which enjoys the participation and support of the community in general, institutions, municipalities and public bodies, proposed a social exercise aimed at influencing the population's linguistic habits in relation to the use of Basque.

For its part, Telecable again supported the Metropoli Gijón 2018 Festival and the Gijón International film festival. In this latter festival, Telecable inaugurated its Telecable room at Yelmo cinemas, where attendees

could enjoy films that had been screened at the San Sebastian Festival.

Sport activities

Sports sponsorship helps the three brands to form strong local bonds. Euskaltel sponsors the region's main male and female football teams: Athletic de Bilbao, Real Sociedad, Osasuna, Elbar and Alavés. It also lends its support to other sports such as the LaKanter International Skate Championship, women's surfing championships, women's basketball and popular races among others. For its part, Telecable supports women's sports through the Telecable Hockey Club. R supports the Obradoiro, Breogán, Leyma Coruña and Club Baloncesto Ourense basketball teams, and fosters a passion for these local teams among its stakeholders. R also supports other sports activities such as STREET STUNTS, slackline and bouldering.

Social events are also organized to promote adapted sports in collaboration with the Basque Federation of Adapted Sports and soccer, basketball and rugby championships are organised involving mixed teams in which players with intellectual disabilities are integrated. Local sports such as "pelota vasca" are also promoted through rural sports events.

Assessment of compliance with 2018 commitments



Grados de cumplimiento de los compromisos adquiridos

☒ Fulfilled
 ☐ Advanced
 ☐ In progress
 ☐ Initiating measures

Solidarity initiatives

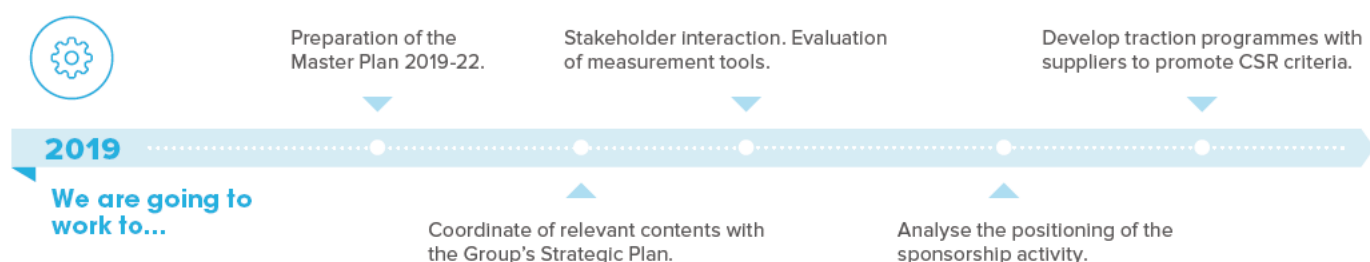
R collaborates with various social organisations through solidarity lotteries, collections of bottle-tops, employee donations through the Nómina Solidaria programme, clothing collection and awareness talks about the environment or plastic recycling. In total, thanks to over 30 initiatives, €2,116 was raised and the Group helped more than 2,000 people in Galicia at risk of social exclusion and victims of gender violence, among other groups. Most of these initiatives contribute to SDGs 8 and 9 “Decent work and economic growth” and “Industry, Innovation and Infrastructure” respectively.

In addition, Euskaltel promotes its commitment to local NGOs mainly through the SMS solidarity programme, which raised €25,755.6 and helped 14 organisations. It also cooperates directly with associations and makes VIP boxes available to entities that help people with intellectual disabilities. During 2018 there were other solidarity initiatives, such as bottle-top collections, a Christmas jumble-sale whose earnings were donated to the Aspace-Bizkara association and participation in the EITB Telemaratón to raise funds for lunch cancer research.

Associations

- Aop (Asociación De Operadores Para La Portabilidad)
- Adegí
- Aed-Asoc. Empresarias Y Directivas
- Aedipe
- Aguirre Lehendakari Center
- Apd
- Artium
- Ascom
- Asoc. Cluster De Las Tic De Galicia
- Asoc. Gran Area Comercial Obelisco
- Asociación A Pasaxe
- Asociacion De Amigos Do Cgac
- Asociacion De Empresarios Del Polígono De A Grela
- Asociación Empresarios Mos
- Bedc (Basque Ecodesign Center)
- Bilbao Metropoli 30
- Bind 4.0 - Gobierno Vasco
- Bizkaired (Asoc. Empresas De Bizkaia)
- Cable Labs
- Cableurope
- Camara De Comercio De Bilbao
- Cámara De Comercio Gijón
- Cebek
- Centro De Innovación Bilbao (Cib)
- Cespa
- Círculo De Empresarios Vascos
- Club Asturiano De Calidad
- Club Financiero Atlantico
- Club Financiero Vigo
- Cluster Audiovisual Galego
- Clustertic
- Confebask
- Confederación Empresarios A Coruña
- Confederacion Provincial De Empresarios De Pontevedra
- Contac Center
- Ctam Europe
- Digitales (Sustituye Ametic)
- Eiken Cluster Audiovisual
- Elhuyar
- Elkargi
- Euskalit
- Fade
- Foro De Gestión Y Finanzas
- Fund. Ctic
- Fund. Opera De Oviedo
- Fund. Valdes Salas
- Fund. Jóvenes Empresarios
- Fundación Bancaria Bbk
- Fundación Citic
- Fundación Galicia Empresa
- Fundación Gradiant
- Fundación Novia Salcedo
- Fundación Tecnalia Research & Innovation
- Fvem-Fed. Empresas Del Metal
- Gaia
- Gaia Netexchange
- Hamaika Telebista
- Ica (Instituto De Consejeros Administradores)
- Ihobe
- Inkolan
- Innobasque
- Izaite
- Kontsumobide
- Kursaal Eszena
- Mik (Mondragon Innovation & Knowledge)
- Museo Do Pobo Galego
- Orkestra -Instituto Vasco De Competitividad
- Guggenheim Museum Board of Trustees
- Polo De Innovación De Envejecimiento
- Registro Oficial De Auditores De Cuentas
- Safelayer
- Sea
- Tecnalia
- Unirisco, S.c.r.s.a.
- Vicomtech

2019 Commitments



PILLARS OF THE EUSKATEL GROUP STRATEGY



Diversified
growth



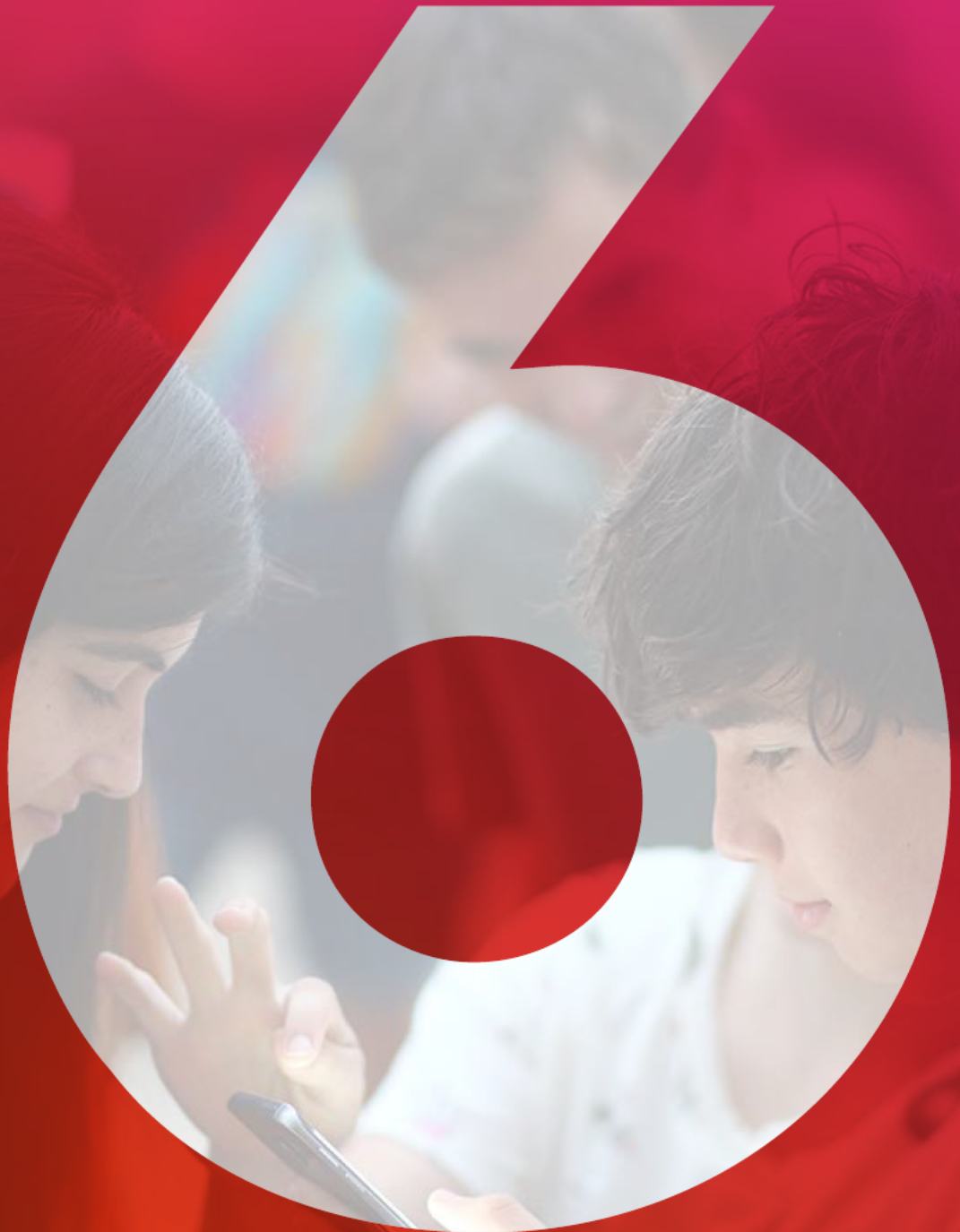
Operational
excellence



Distinctive
experience



Customer value
protection

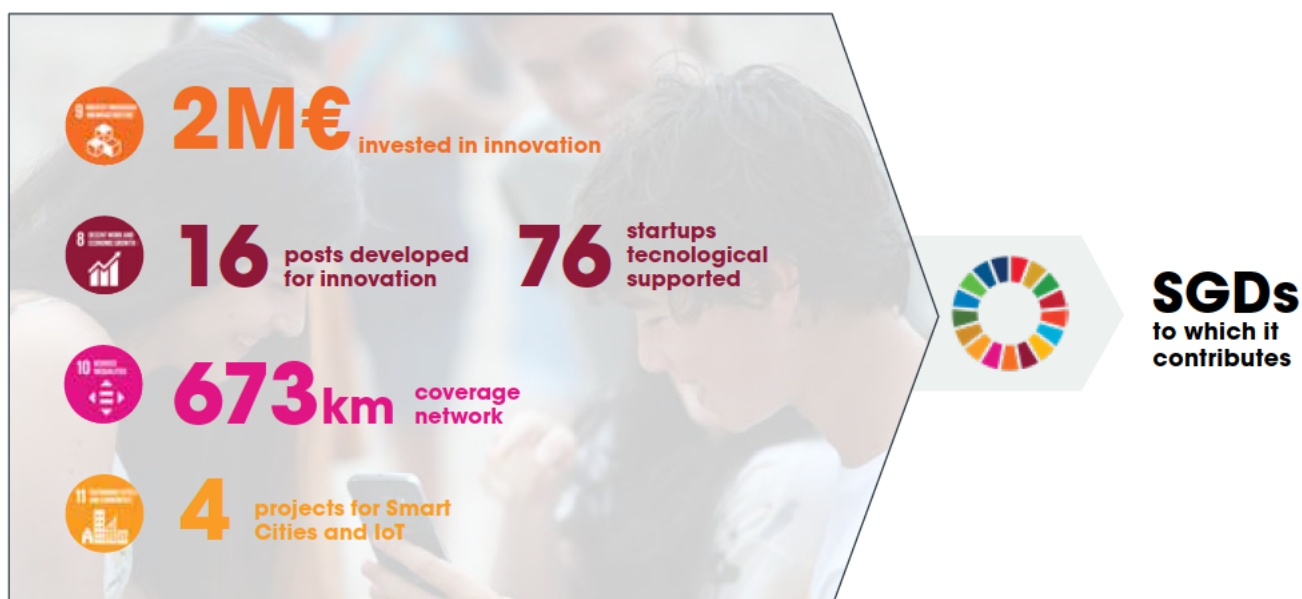


Intellectual capital

Intellectual capital has a transversal impact across all the Strategic Plan pillars. In addition, innovation is one of the corporate values and is a key area for the Group as reflected in the materiality analysis carried out in 2018.

Contributing to innovation and the digital transformation of society

Ongoing innovation and the use of the latest technologies are essential for us as a telecommunication company since we have the aim and the duty to facilitate access to the most innovative tools and services in order to help our customers and stakeholders in their day-to-day tasks.



In both the Strategic Plan and its corporate values, the Group is committed to cutting-edge innovation. Relations with all stakeholders require increasing process digitisation and the implementation of the efficiency derived from innovation, with the aim of heading forward as regards the Company's responsibility and sustainability and its area of influence.

By 2020, 16 million more jobs are expected to be created in Europe that require IT and communications skills.

A constantly developing business such as the Euskaltel Group, made up of highly qualified professionals, which establishes alliances with suppliers that are increasingly committed to sustainable development and which responds to the needs of customers who demand faster and more efficient products, must have a strategy for its contribution to Sustainable Development Goals and specifically, the major impact it generates in SDG 9 as one of the main objectives related to the Group's activity.

In 2018 the main services carried out have contributed, through innovation, to SDG 8 by enhancing working practices in all kinds of businesses, which have been able to incorporate new technologies into their day-to-day activities at a reasonable cost; to SDG 10 by reducing inequalities and fostering Internet access in rural areas; to SDG 11 by helping to transform cities on a sustainable basis with the latest technologies that help to harmonise life in urban areas; and finally to SDG 12 by encouraging responsible technology consumption through various initiatives and through increasingly efficient production processes, also taking into account responsible production in strategic alliances.

In addition, 16 million more jobs are expected to be created in Europe by 2020 that require competencies in information and communication technologies. The Euskaltel Group considers itself to be both a facilitator of this balanced transition and responsible for this digital transformation process. In this respect, the main objective of the Euskaltel Group during 2018 was to bring ICTs closer to society by encouraging the use of new technologies and promoting knowledge and responsible use of these technologies across the community. The Group has therefore made a strong commitment to technology innovation and R&D+i in order to achieve the best technological solution by and for people.

Innovation investment

The Euskaltel Group plays an important role in the Basque Country, Galicia and Asturias in the areas of technology, digital culture and digitalisation in both the business sector and in people's lives.

More and more businesses, sectors and activities are impacted by digital technologies and access to information, with consequences and effects that are still uncertain. Despite this, there is a general consensus that the growing digitisation of industries and the economy in general will contribute value by generating opportunities for the development of new business models that will bring about substantial changes in companies' value proposals, in their relations with customers and in the optimisation of production processes to generate greater efficiencies.

During 2018 the Euskaltel Group worked in partnership with other organisations on innovation associated with digitalisation in projects such as Innolab, Innovation in digital content in Startup R DICO Challenge or Innovation associated with aging in projects such as OKencasa. It also cooperated with technology centres (Tecnalia, VI-comtech, Gradiant, etc.) with the aim of focusing and driving innovation in the territories in which it operates.

In this manner, the development of the digital economy also improves competition conditions in these geographical areas. For this reason, the digitalisation of the business community is one of the key factors to be considered in the smart specialisation strategies (RIS3) promoted by the governments of the regions in which the Euskaltel Group operates.

Within this framework, the Euskaltel Group collaborates with Orkestra (Basque Competition Institute) in the Digital Economy Laboratory with the commitment of identifying the challenges involved in carrying out the digital transformation efficiently and in contributing, on the basis of research, to Euskaltel becoming one of the leaders in this area. It also works together with key players, from a transformative research viewpoint, in order to promote the necessary policies and strategic mechanisms.

The Corporate Innovation Unit, made up of 16 persons, focuses on studying and analysing industry trends, new technologies, the Group's viability for supporting new projects and the right time for launching new services, among other matters. This team therefore focuses its research on creating new devices and services that incorporate all the possibilities offered by the digital transformation, with increasing emphasis on the capacity of technology to make a social and environmental contribution in the regions in which it operates.



2M€

invested in innovation



10

new services launched

Digital Transformation Alliances

The Euskaltel Group also bases its innovation on the creation of alliances with other technology specialists with the aim of facilitating the incorporation of technology into the services provided to customers. For this reason, it carries out various initiatives and supports universities and other organisations and companies through its business activities (Euskaltel, R and Telecable) and the Euskaltel Konekta Foundation, which supports, both financially and intellectually, the promotion of entrepreneurship and innovation research. The knowledge acquired by the Euskaltel Group through its own IoT, Big Data and RPA (Robot Process Automation) projects, as well as its network of alliances developed in recent years, have allowed it to undertake relevant projects with customers in the digital transformation area, with applications in the Pharmaceutical, Retail, Industry 4.0 and Smart Cities sectors. Some of the most outstanding initiatives in this respect are as follows:

- Smart Lugo, to which the Euskaltel Group contributes by providing Smart Parking and Smart Metering services.
- Smart Gijón, in which urban mobility reports are made based on data from the mobile network.
- The EDIXGAL Plan, through which R supports the Galicia regional govern-

ment in the development of its digitalisation and promotion plan for STEAM vocations among young people.

- The R and Telecable Professorships focused on cybersecurity and the transfer of knowledge on new technologies.
- Projects such as Blind 4.0 or Innolab, in which the Euskaltel Konekta Foundation collaborates with the Basque Government, the Bilbao City Council and cutting-edge companies. The first involves the public-private accelerator programme aimed at driving the development of the best Industry 4.0 start-ups, fostering projects with leading industrial companies and taking part in a comprehensive support programme. The second consists of a business creativity forum involving the country's best innovation and digital business experts, in fields as diverse as digital marketing, new technologies, Internet and entrepreneurship.

Thanks to its commitment to attract young talent, the Euskaltel Group has also participated in the Dual Action Entrepreneurship Masters at Deusto University, this being a new experience in the university environment as it is implemented through a dual university-company learning process. In this respect, in 2018 Euskaltel proposed to the

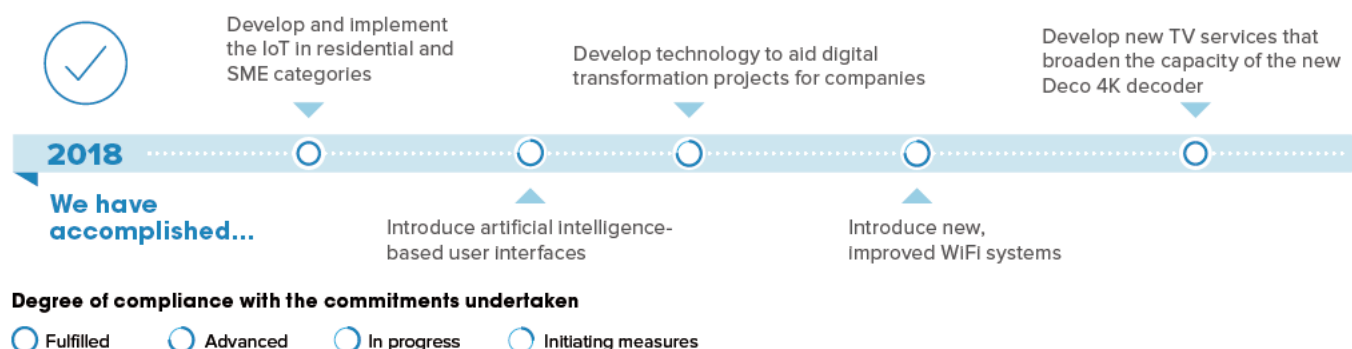
participants a challenge related to the social area and an aging population, with the aim of proposing disruptive and innovative solutions. In addition, during the company training period, Euskaltel worked with two of the participants who developed intra-entrepreneurship projects with the company's support and advice.

Thanks to its commitment to young talent, Euskaltel has participated with other leading Basque companies in the Dual Action Entrepreneurship Masters at Deusto University, a new experience in the university environment involving dual university-company learning.

It worked for six months with two of the participants in the first edition of this Masters, who developed their intra-entrepreneurship projects with the support and advice of their Euskaltel colleagues.

During the second edition of the Masters, which began in September, Euskaltel proposed to the participants a challenge related to the social area and the aging population, with the aim of obtaining original and innovative solutions. For four days they worked on proposals to foster new economic activities related to the Silver Economy and digitalisation in the Basque Country, which they presented to their colleagues at Euskaltel.

Assessment of compliance with 2018 commitments



Key projects

One of the main objectives of the Euskaltel Group is to bring ICT closer to the community by promoting the use of new technologies and providing knowledge about these technologies and their responsible use. The Group therefore has a strong commitment to technological innovation and R&D+I with the aim of achieving the best technological solutions by and for people, promoting various initiatives and supporting universities through 11 agreements. The most noteworthy projects in the innovation field in 2018 were:

New content via Deco 4K

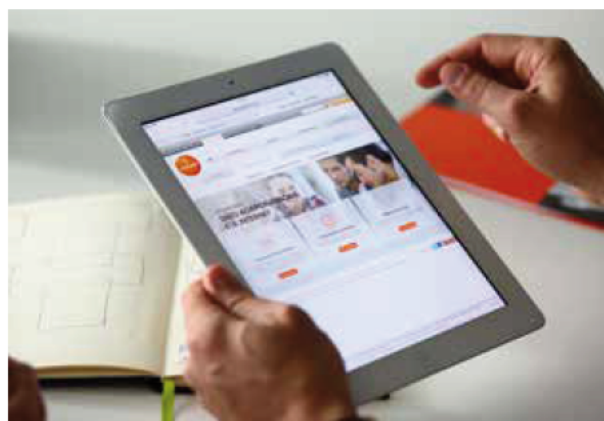
In 2018 several new developments were brought in for the decoder, highlighting the agreement with Netflix and Amazon Prime and the "Continue watching" function, which allows content to be frozen and enjoyed later on whenever the user wants. The Euskaltel Group is the first operator to launch Netflix in Spain with a direct access in the remote control.

Euskaltel Life

Like R's "Tres Ojos", Euskaltel has developed its own Internet of Things brand with a free service for all home Internet customers. To us it, all that is needed is a Central Unit and the sensors that most interest each user. Customers can thus receive information on everything that is happening in their homes and programme whichever functionalities they prefer, gaining in comfort and saving on consumption.

Smart Lugo

As one of the technological partners of the Lugo City Council, R has initiated the design of the Smart Lugo Initiative within the Smart Cities project. The aim is to improve citizens' quality of life and the efficiency of public services, as well as to encourage participation in and transparency through new channels.



Smart Gijón

The Group also provides reports on urban mobility in Gijón thanks to Telecable, based on data from the mobile network. The aim of this project is to carry out the Comprehensive Sustainable and Safe Mobility Plan for the city, complementing this Smart Cities project with the development of the TuCycle shared bike app.

Compromisos para 2019



Introduce artificial intelligence-based user interfaces

Develop new TV services that broaden the Deco 4K capacities

Continue implementing new improved WiFi systems

2019

We are going to work...

Develop technology and products to aid digital transformation projects for companies

Continue developing services based on IoT for residential and SME categories

7

Other information

About this Report

This Report has been drawn up on the basis of the financial and non-financial reporting system implemented in the Euskaltel Group and the initiatives developed in the regions in which it operates.

Scope and profile of the Report

The Euskaltel Group has drawn up this Responsible Company Report in accordance with the Global Reporting Initiative (GRI) guidelines, following the principles and content defined in the most recent edition of the GRI Standards applying the comprehensive option.

This is the international benchmark for the preparation of sustainability reports since all the most relevant issues for shareholders, customers, employees, suppliers, and society are covered, including comprehensive information on ESG (Environmental, Social and Governance) matters.

In order to comply with the GRI guidelines, the company carried out a materiality analysis to focus its reporting on those social, environmental and economic issues that are most relevant for its business and that influence the decisions of the Group's stakeholders. In addition, as signatories of the United Nations Global Compact, this Report includes the progress made in complying with the Principles established by that initiative. It focuses in particular on issues identified as relevant in the materiality analysis performed. The preparation and results of this analysis are disclosed below. The information

provided in this Report follows the basic line set out in the previous Responsible Company Report, in order to evaluate the Euskaltel Group's performance over time and to enable the comparison of the information disclosed for each period. In addition, in 2018 all the indicators of the three integrated businesses were incorporated for the first time into the Reporting system. All the data reported cover Euskaltel, R and Telecable since 1 January 2018. The CINFO data have not been taken into account in the Non-Financial Information Statement since they represent 0.11% of the business and therefore are not considered material.

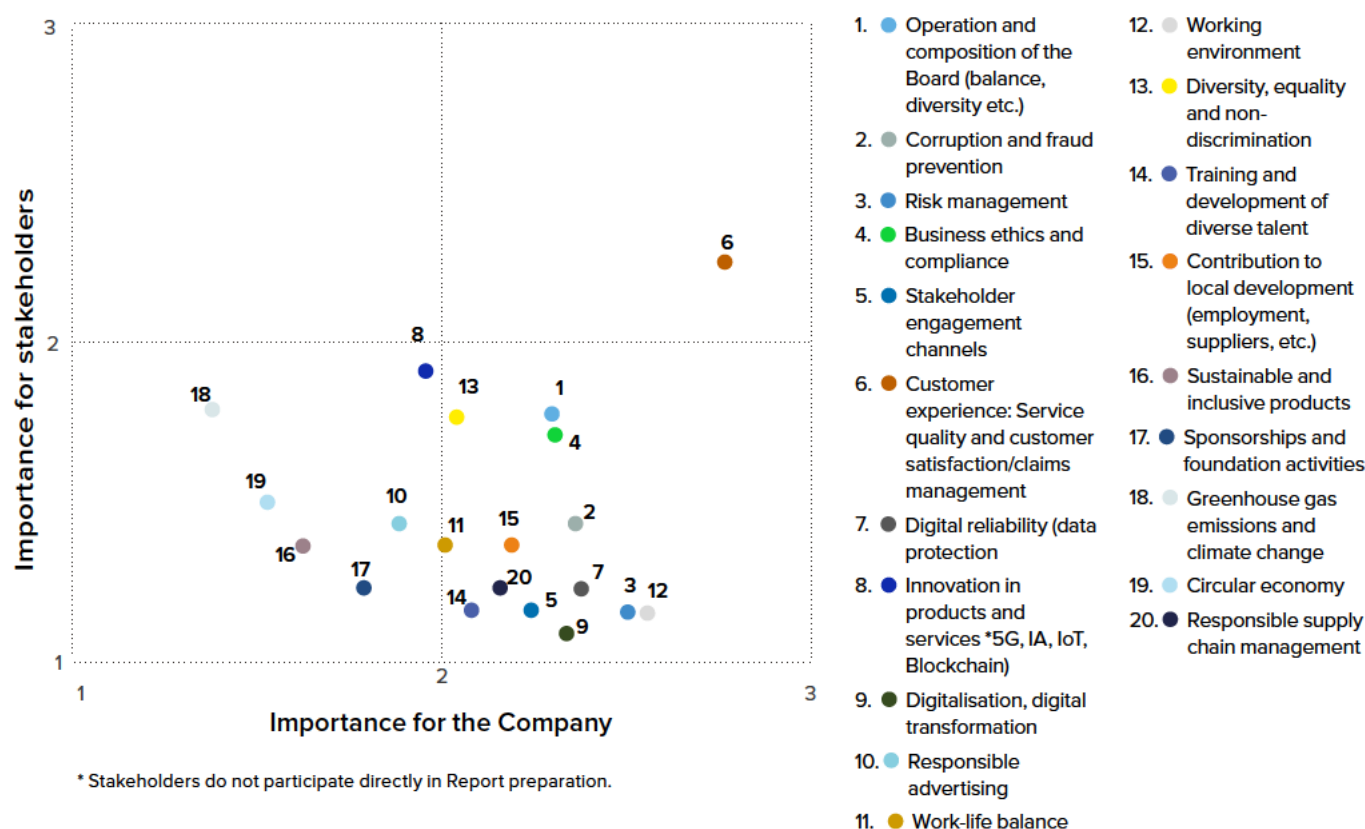
The content of this Report covers the information posted on the Euskaltel Group website, the EMAS Environmental Statement, the Annual Corporate Governance Report and the Consolidated Annual Accounts for 2018. It forms part of and is subject to the same approval, filing and disclosure requirements as the Management Report, in compliance with Law 11/2018 of 28 December on Non-Financial Information and Diversity. The new requirements of that law have also been taken into account in the Report. The Report also follows the CNMV Corporate Governance Recommendations.

Materiality Analysis

In 2018 the Euskaltel Group carried out a materiality analysis in accordance with GRI Standards. The first steps were to conduct an external analysis taking into account the main sector trends, a detailed press study related to the Euskaltel Group using the Factiva tool, the content posted on the Group's and competitors' websites, the information required by proxy advisors, the strategic lines of peer entities with respect to CSR, sector regulation and the information required by the main analysts on sustainability, basing the study mainly on the Dow Jones Sustainability Index (DJSI), the FTSE4GOOD and the CDP. The main needs and concerns of Euskaltel Group stakeholders were also taken into account, which were detected through the various communication channels available to employees, customers, the public, shareholders, suppliers and institutions, as well as the experience of the areas that are in daily contact with these stakeholders.

As a result of this analysis, 30 relevant issues were identified which gave rise, as a novelty this year, to matters such as the working environment, electromagnetic emission management and supplier satisfaction. An internal analysis of these 30 issues was then conducted through an evaluation by the various areas of the Euskaltel Group (Internal Audit, Communication, Finance, Legal Counsel, Compliance, Residential Marketing, Corporate Marketing, Network Team, Institutional Relations, Strategy, Human Resources, Purchases, Basque Country, Galicia Asturias Business and Investor Relations) which was weighted by the degree of importance of each of these matters with respect to the Group's operations and their impact on its reputation. From these internal and external studies 20 priority issues were obtained using the following matrix, which represents matters which are material to both the company and its stakeholders. The Responsible Company Report for 2018 has focused on these issues.

MATERIALITY MATRIX



Stakeholder engagement

The Euskaltel Group bases its strategy and corporate values on its relations with its main stakeholders. This is a differentiating factor with respect to its competitors. For the Group it is essential to know the opinions, needs and concerns of its employees, customers, investors, suppliers and other stakeholders since business development is based on alliances with other companies, public administrations and the emotional bond with the community in general.

This is defined in the main Company's main CSR tools, such as the Group's Responsibility policy, which lays down the commitments and basic lines to be fulfilled by each player, or the CSR Master Plan, based on the expectations identified through consultations with stakeholders. In addition, the corporate values of proximity and honesty not only represent and define the conduct of the Group's professionals, but also reflect the quality of the relationships with the parties with which they collaborate.

The trusting environment generated by the Group and the value created in the territories in which it is present result from a detailed Communication Plan that includes all stakeholders and is based on the corporate values. The Group's communication is characterised by maintaining close relations with its market and opinion formers based on transparency and the proximity that Euskaltel, R and Telecable enjoy with their stakeholders in the Basque Country, Galicia and Asturias, respectively. This communication and stakeholder relations model has generated reputational capital and a brand image without comparison in the sector, achieving an extraordinary degree of identification with its market, which differentiates it from its competitors to a considerable extent.

To maintain these close and honest relations, the Euskaltel Group uses various platforms and fosters direct two-way dialogue through which customers, shareholders, employees and the public can express their needs and propose improvements. One of the main channels is the Ethics Channel, which is open not only to the Group's professionals but also to customers, suppliers and third parties, with the aim of resolving doubts or queries regarding behaviour within the Group or to report events or actions that might breach

the Code of Ethics and its Instructions for Behaviour and/or any other rules of conduct included in the Corporate Governance System of the Euskaltel Group, as well as the applicable external legislation or regulations.

The main customer channel is Customer Experience, a tool which has allowed the Group to get to know customers better in recent years and develop products and services in line with their needs. In addition, employees have

The Euskaltel Group bases its strategy and corporate values on the relationship with its main stakeholders, which is a differentiating factor compared with its competitors.

a number of tools for expressing their concerns or their satisfaction, such as the working environment surveys carried out annually. With regard to investors, through the Investor Relations area more than 300 interactions were carried out in 2018 through roadshows organised with the main brokers, conferences or breakfasts with analysts, mainly following the release of quarterly results. The first investor satisfaction survey was also launched in 2018, with a score of 7.8 out of 10. The smooth communications with the Investor Relations team were highlighted. In addition, following its success in 2017, an Investor Day is planned on a biennial or triennial basis, provided there is a relevant plan to share with the shareholders.








As a sign of the Group's close engagement, it has continued to build a network of trust with the community through its sponsorships, the development of the local culture and digitalisa-

tion through the actions of the Euskaltel Konekta Foundation. In addition, regular contact with the authorities enhances our knowledge of the local territory and the detection of major needs. Fluid, two-way relations are also maintained with the Group's suppliers, considered strategic allies and part of the enterprise, since without them the services provided could not be carried out. In this respect, the Purchases area plays an essential role in detecting their concerns and ascertaining supplier satisfaction throughout the supply chain, with respect to both the main allies and the small

companies that collaborate with the Group through ongoing direct contacts, the Ethics Channel and the annual supplier assessment under ISO 9001.

Finally, the open-door policy of the Management Team makes it easier to exchange information and present queries. In 2018, the main concerns addressed to the Board and Management related to the Group's expansion. In general, a growing interest in the quality of the working environment, equal opportunities and digitalisation has been detected through the different channels.

Main Euskaltel Group stakeholders and communication channels

Stakeholders	Communication tool	Main expectations identified
 Society Social organisations, universities and educational centres, research centres, business community, local community, opinion formers, consumer associations and news media.	<ul style="list-style-type: none"> ■ Social networks ■ Relations with the media ■ Collaboration with universities and other institutions ■ Community Survey 	Communication with society, social responsibility, capacity to generate value and business ethics.
 Customers Corporate, residential, institutions and public sector.	<ul style="list-style-type: none"> ■ Páginas web de Euskaltel, R y Telecable ■ Aplicaciones móviles ■ Reclamaciones ■ Customer Experience 	Management excellence, service quality, data privacy and rate transparency.
 Professionals Professionals covered/not covered by a collective agreement, workers' representatives (WR), trainees and temporary employment agencies.	<ul style="list-style-type: none"> ■ Canales de comunicación interna ■ Intranet ■ Encuesta de satisfacción 	Leadership, working environment, work organisation, professional development, equal opportunities and internal communication.
 Suppliers and allies Distributors, fitters and contractors, strategic suppliers, operators, infrastructure providers.	<ul style="list-style-type: none"> ■ Community Survey 	Local purchasing and transparency and equal opportunities.
 Public Authorities Provincial councils, city councils, governments, supervisors, regulators, development agencies and sector agencies.	<ul style="list-style-type: none"> ■ Community Survey 	Transparency, legal compliance, environmental management and people management.
 Shareholders and investors Board, shareholders, analysts and investors, financiers, press related to shareholders.	<ul style="list-style-type: none"> ■ Satisfaction survey ■ Investor Relations office ■ General Shareholders' Meeting 	Reputational risk, financial results and proximity to shareholders and investors.
 ALL	<ul style="list-style-type: none"> ■ Ethic 	Closeness and transparency with respect to all stakeholders in compliance with sector legislation and other applicable regulations.

Frequency

■ Continuous ■ Biennial ■ Annual

AENOR

AENOR Verification Statement for GRUPO EUSKALTEL.

relating to the reporting of non-financial information in
accordance with Law 11/2018 corresponding for the year ended
31 December 2018

FILE: 1999/0485/GEN/04

GRUPO EUSKALTEL (hereinafter the company) has commissioned AENOR to carry out a verification under a limited level of assurance of the state of non-financial information (hereinafter NFI reporting), in accordance with Law 11/2018 amending the Commercial Code, the consolidated text of the Capital Companies Law approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of July 20, on Account Auditing, in matters of non-financial information and diversity (hereinafter, Law 11/2018), for the verification period of its activities, fiscal year ended December 31, 2018, included in the report dated 20/02/2019, which is part of this Statement.

AENOR, in accordance with the aforementioned Law, has carried out this verification as an independent provider of verification services.

In this sense, AENOR has carried out the present verification under the principles of integrity, independence, ethics, objectivity, professional competence and diligence, confidentiality and professional behaviour that are required based on the accreditations that it has, within the general scope of application of ISO/IEC 17021-1:2015 and ISO 14065, and individuals, such as the Accreditation granted by the United Nations Convention on Climate Change (UNFCCC) for verification and validation of Clean Development Mechanism (CDM) projects.

AENOR, as required by the aforementioned Law, declares that it has not participated in processes prior to the verification of the NFI reporting.

Company data: GRUPO EUSKALTEL

headquartered in:

PARQUE TECNOLÓGICO - EDIFICIO 809.

48160 DERIO (BIZKAIA)

AENOR

Representatives of the Organization for the purposes of statement of non-financial information: Mr. José Félix Gonzalo Camarero as Director of Quality, Environment, Welfare and Health.

GRUPO EUSKALTEL had the responsibility to report its non-financial information status in accordance with Law 11/2018. The formulation of the NFI reporting as well as its content is the responsibility of the Administrators of the company. This responsibility also includes the design, implementation and maintenance of the internal control considered necessary to allow the NFI reporting to be free from any material misstatement, due to fraud or error, as well as the management systems from which the necessary information is obtained for the preparation of the NFI reporting.

Purpose

The purpose of the verification is to provide interested parties with a professional and independent judgement about the information and data contained in the non-financial information statement of the aforementioned organization, prepared in accordance with Law 11/2018.

Scope of Verification

The Non-Financial Information Statement 2018 Responsible Company Report, dated 25/02/2019 of GRUPO EUSKALTEL, and companies included in the consolidated and related statements below:

EUSKALTEL, S.A.

R CABLE Y TELECOMUNICACIONES GALICIA, S.A.U.

TELECABLE DE ASTURIAS, S.A.U.

CINFO, CONTENIDOS INFORMATIVOS PERSONALIZADOS, S.L.

Materiality

For verification purposes, it was agreed to consider material discrepancies those omissions, distortions or errors that can be quantified and result in a difference greater than 5% with respect to the total declared.

Criteria

AENOR

The criteria and information that have been taken into account as a reference for carrying out the check have been:

- 1) Law 11/2018 of 28 December amending the Commercial Code, the revised text of the Capital Companies Law approved by Royal Legislative Decree 1/2010 of 2 July and Law 22/2015 of 20 July on the Auditing of Accounts, on non-financial information and diversity.
- 2) Standard ISAE 3000 (revised), relating to the commissioning of different insurances or the review of historical financial information.
- 3) The criteria established by the global sustainability reporting initiative at GRI standards when the organization has opted for this internationally recognized framework for the disclosure of information related to its corporate social responsibility.

AENOR expressly disclaims any responsibility for investment or other decisions based on this statement.

Verification process carried out

During the verification process carried out, under a limited level of assurance, AENOR conducted interviews with the staff in charge of collecting and preparing the non-financial information statement and reviewed evidence relating to:

- Activities, products and services provided by the organization
- Consistency and traceability of the information provided, including the process followed to compile it, sampling information on the reported one.
- Completion and content of the statement of non-financial information in order to ensure the completeness, accuracy and truthfulness of its content.

Conclusion

Based on the foregoing, in our opinion, there is no evidence to suggest that the statement of non-financial information included in the The Non-Financial Information Statement 2018 Responsible Company Report, dated 25/02/2019 and for the year ended December 31, 2018, is not a faithful representation of the GRUPO EUSKALTEL performance in social responsibility matters under Law 11/2018. Specifically, in relation to environmental, social and personnel issues, including the management of equality, non-discrimination and universal accessibility, human rights, the fight against corruption and bribery and diversity.

Madrid, 27 February 2019








GRI tables

Standards	Description	Observations/direct reference (page)	Scope	SDG	Global Compact
GRI 101 Fundamentos					
101	Principles	Other information (p. 81)	Group		
GRI 102 Contenidos generales					
Perfil de la organización					
102-1	Name of the organisation	Euskaltel, S.A. R Cable and Telecomunicaciones Galicia, S.A. Telecable de Asturias S.A.U.	Group		
102-2	Activities, brands, products and services	Euskaltel Group in 2018 (p. 6-8) Customers (p. 43-53)	Group		
102-3	Location of headquarters	Back cover	Group		
102-4	Location of operations	Euskaltel Group in 2018 (p. 6 and 11)	Group		
102-5	Ownership and legal form	Euskaltel, S.A. Organisational and Cultural Capital (p. 22)	Group		
102-6	Market served	Customers (p. 47-53) Euskaltel Group in 2018 (p. 6 and 11)	Group		
102-7	Scale of the organisation	Euskaltel Group in 2018 (p. 6 and 7) Human capital (p. 29)	Group		
102-8	Information on employees and other workers	See appendix 102-8 (p. 101)	Group	8	Principle 6
102-9	Supply chain	Relationships (p. 66) Euskaltel Group suppliers in 2018 were located in the EC, except for 14 that are in Canada (2), China (1), Colombia (1), Israel (1), Switzerland (1) and USA (8). See Appendix (p. 102)	Group		
102-10	Significant changes to the organisation and its supply chain	Letter from the Chairman and the CEO (p. 3 and 4) Euskaltel Group in 2018 (p. 6) Organisational and Cultural Capital (p. 23) Relationships (p. 66) Customers (p. 51)	Group		
102-11	Precautionary principle or approach	Organisational and Cultural Capital (p. 17-19) Section E of the Euskaltel Group's 2018 Annual Corporate Governance Report.	Group		
102-12	External initiatives	Letter from the Chairman and the CEO (p. 5) Natural Capital (p. 57) Relationships (p. 67-73) https://www.euskaltel.com https://blog.euskaltel.com http://konekta.euskaltel.com https://www.mundo-r.com https://blog.mundo-r.com https://www.telecable.es https://blog.telecable.es/	Group	17	
102-13	Membership of Associations	Relationships (p. 67-73) Other Information (p. 81)	Group	17	
Strategy					
102-14	Statement from senior decision-maker	Letter from the Chairman and the CEO (p. 2-5)	Group		
102-15	Key impacts, risks and opportunities	Organisational and Cultural Capital (p. 19-22) See Appendix (p. 106)	Group		






Standards	Description	Observations/direct reference (page)	Scope	SDG	Global Compact
Ethics and Integrity					
102-16	Values, principles, standards and norms of behaviour	Letter from the Chairman and the CEO (p. 3) Organisational and Cultural Capital (p. (17 - 19) Human Capital (p. 30)	Group	16	Principle 6
102-17	Mechanisms for advice and concern about ethics	In 2018, the Ethics Channel was implemented for the Group's professionals in order to communicate, in addition to any non-compliance, doubts or queries related to compliance and / or applicable regulations. This channel is accessible to professionals through the intranets of each of the Group's companies. Likewise, for the same purposes, the Ethics Channel is available for posting queries and clarifying doubts to any supplier, customer or third party outside the Euskaltel Group through the corporate websites of each Euskaltel Group company.	Group	16	Principle 6
Governance					
102-18	Governance structure	Organisational and Cultural Capital (p. 22-23)	Group		
102-19	Decision-making	Euskaltel Group in 2018 (p. 9-13) Other information (p. 81)	Group		
102-20	Executive-level responsibility for economic, environmental, and social issues	Organisational and Cultural Capital (p. 24 and 25)	Group		
102-21	Consulting stakeholders on economic, environmental and social issues	Other information (p. 83 and 84)	Group	16	
102-22	Composition of the highest governance body and its committees	Organisational and Cultural Capital (p. 17-23)	Group	5 16	
102-23	Chair of the highest governing body	Organisational and Cultural Capital (p. 22)	Group	16	
102-24	Nominating and selecting of the highest governance body	Organisational and Cultural Capital (p. 22)	Group	5 16	
102-25	Conflicts of interest	D.6 of the Annual Corporate Governance Report 2018 of the Euskaltel	Group	16	
102-26	Role of highest governance body in setting, values and strategy	Letter from the Chairman and the CEO (p. 3) Organisational and Cultural Capital (p. 19) Section E of the Euskaltel Group's 2018 Annual Corporate Governance Report contains further information.	Group		
102-27	Collective knowledge of highest governance body	Organisational and Cultural Capital (p. 23)	Group	4	
102-28	Evaluating the highest governance body's performance	Organisational and Cultural Capital (p. 23)	Group		














































Standards	Description	Observations/direct reference (page)	Scope	SDG	Global Compact								
Governance													
102-29	Identifying and managing of economic, environmental and social impacts	Section E of the Euskaltel Group's 2018 Annual Corporate Governance Report	Group	16									
102-30	Effectiveness of risk management processes	Section E of the Euskaltel Group's 2018 Annual Corporate Governance Report	Group										
102-31	Review of economic, environmental and social topics	Organisational and Cultural Capital (p. 24 and 25)	Group										
102-32	Highest governance body's role in sustainability reporting	The Board of Directors is responsible for the review and approval of this Responsible Company Report 2018, after verification by a third party.	Group										
102-33	Communicating critical concerns	The CEO and the CFO are entrusted with informing the Board of Directors of all aspects regarding the company's performance.	Group										
102-34	Nature and total number of critical concerns	In general terms, the matters taken to the Board during 2018 related to business in the three regions in which the Euskaltel Group operates, monthly management reports, preparation of the annual accounts, proposed distribution of profits, proposed dividend payment, regular public reporting, budgets and definition of objectives, approval of various annual reports, convening of the Annual General Meeting, preparation of proposed resolutions and relevant directors' reports, appointment of new Board members, appointment to Board offices (Secretary and Deputy Secretary), internal organisational structure, corporate policies, main legislative developments, consolidation and investee scope, major Euskaltel shareholders and information on corporate governance, among other matters.	Group										
102-35	Remuneration policies	Report on Euskaltel Directors' Remuneration 2018.	Group										
102-36	Process for determining remuneration	Report on Euskaltel Directors' Remuneration 2018.	Group										
102-37	Stakeholders' involvement in remuneration	Organisational and Cultural Capital (p. 22 and 23) Report on Euskaltel Directors' Remuneration 2018.	Group	16									
102-38	Annual total compensation ratio	The compensation ratio is 46%. Only employees covered by a Collective Agreement are included.	Group										
102-39	Percentage increase in annual total compensation ratio	By reference to employees under collective bargaining agreements, the best paid person's salary rose by 0%, whereas the rise was 2% according to the collective agreement, so the ratio is 0%. <div>Compensation analysis</div> <table><thead><tr><th></th><th>2016</th><th>2017</th><th>2018</th></tr></thead><tbody><tr><td>Percentage</td><td>2.2%</td><td>2%</td><td>0%</td></tr></tbody></table>		2016	2017	2018	Percentage	2.2%	2%	0%	Group		
	2016	2017	2018										
Percentage	2.2%	2%	0%										

Standards	Description	Observations/direct reference (page)	Scope	SDG	Global Compact
Stakeholder engagement					
102-40	List of stakeholders groups	Other information (p. 83 and 84)	Group		
102-41	Collective bargaining agreements	Human capital (p. 34) 88% of Euskaltel Group employees are covered by Collective Agreements Managers and Directors are excluded.	Group	8	Principle 1 and 3
102-42	Identifying and selecting stakeholders	Other information (p. 83 and 84)	Group		
102-43	Approach to stakeholder engagement	Customers (p. 43 and 44) Other information (p. 82-84) See Appendix (p. 101)	Group		
102-44	Key issues and concerns raised	Other information (p. 82)	Group		
Reporting practice					
102-45	Entities included in the consolidated financial statements	Organisational and Cultural Capital (p. 22) Other information (p. 81) Entities included in the consolidated financial statements are Euskaltel S.A (Group parent company), R Cable, S.A, Telecable de Asturias, S.A and Cinfo, S.L. (subsidiaries). On 11 July 2018 the existing shareholding in Cinfo was sold.	Group		
102-46	Defining report content and topic boundaries	Other information (p. 81)	Group		
102-47	List of material topics Restatements of information	Other information (p. 82)	Group		
102-48	Re expresiones de información	Other information (p. 81)	Group		
102-49	Changes in reporting	Other information (p. 81)	Group		
102-50	Reporting period	FY 2018	Group		
102-51	Date of most recent report	23 February 2018	Group		
102-52	Report cycle	Annual	Group		
102-53	Contact point for questions regarding the report	Back cover	Group		
102-54	Claims of reporting in accordance with GRI Standards	Verification Report (p. 85)	Group		
102-55	GRI Index	GRI Standards Table (p. 86-97)	Group		
102-56	External assurance	Verification Report (p. 85 and 86) The Euskaltel Group commissions an officially authorised company (AENOR) to verify non-financial information.	Group		
GRI 103 Management Approach					
103-1	Explanation of the material topic and its boundary		Group		
103-2	The management approach and its components	Management approach indicated in each part of this table.	Group	1 8 16	Principle 6
103-3	Evaluation of the management approach		Group		

Standards	Description	Observations/direct reference (page)	Scope	SDG	Global Compact
GRI 201 Economic Performance <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation included in Chapters 0, 1, 2 and 5.</i>					
201-1	Direct economic value generated and distributed	Relationships (p. 65)	Group		
201-2	Financial implications and other risks and opportunities due to climate change	Due to the nature of its activities, Euskaltel has a very low environmental impact on its surroundings. This influences the scope of the environmental objectives it sets and allows the Group to ensure that any potential risk for the company's activities is being properly managed. As the principal measurement of its impact on climate change, the Euskaltel Group calculates its carbon footprint each year and prepares GHG emissions reports following a method established together with Ihohe (Public Environmental Management Corporation dependent on the Basque Government), where both direct and indirect emissions are quantified. Euskaltel also reports on risks and opportunities in the CDP report which is available at https://www.cdp.net/es/climate	Group		Principle 7 and 8
201-3	Defined benefit plan obligations and other retirement plans	All Euskaltel Group employees enjoy a number of welfare benefits related either to the products and services provided or to welfare, health and employee retirement contributions. The Euskaltel Group pays its employees' monthly Social Security contributions, based on their salaries, for the public welfare system.	Group		
201-4	Financial assistance received from the Government	In 2018, subsidies received totalled €12,758 thousand. In 2017, the figure was €64 thousand and €248 thousand in 2016	Group		
GRI 202 Market Presence <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation included in Chapters 0, 1 and 2.</i>					
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	The ratio between the entry level wage and the local minimum wage in the Group in Group 2018 was 1.75 for women and 1.60 for men.	Group		Principle 1 and 6
202-2	Proportion of senior management hired from the local community	The Group's senior management team comprises the Chairman, CEO, the heads of the Decision Centres and the heads of the Function Departments . 91% of the senior management team are from the local community, i.e. Spain, the market in which it operates.	Group		Principle 6
GRI 203 Indirect Economic Impacts <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation included in Chapters 0, 3 and 5.</i>					
203-1	Infrastructure investments and services supported	The 2018 investment relating to customers and network deployment amounts to: €107,865,969. Customers (p. 41, 52 and 53)	Group		
203-2	Significant indirect economic impacts	Euskaltel Group bases its approach as an integrated telecommunications operator with an assured future development on the deployment of its own high capacity and capillarity network, which allows the provision of distinct high-value services.	Group		

Standards	Description	Observations/direct reference (page)	Scope	SDG	Global Compact
GRI 204 Procurement practices <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 5.</i>					
204-1	Proportion of spending on local suppliers	Relationships (p. 66) See Appendix (p. 102)	Group	12	
GRI 205 Anti-corruption <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapters 1.</i>					
205-1	Operations assessed for risks related to corruption	In 2018, the Group's distributors and suppliers with the largest billings and risk accepted and signed the Euskaltel Group Code of Ethics and Anti-corruption Policy. Organisational and Cultural Capital (p. 15 and 20) Supervision of compliance with the code is entrusted to the Corporate Compliance Committee, which bears ultimate responsibility for the effective supervision and monitoring of the regulatory environment affecting the Group's business.	Group	16	Principle 10
205-2	Communication and training about anti-corruption policies and procedures	During 2018, as part of a communication and training plan on regulatory compliance, training was given on the Euskaltel Group's Code of Ethics, for Behaviour and Anticorruption Policy both presentially and through the intranets of each Group company. Since September, communications have also been carried out within the Group concerning Compliance, on a structured and recurring basis.	Group	16	Principle 10
205-3	Confirmed incidents of corruption and measures taken	During 2018, no incidents occurred that involved a severe breach of regulations or of the good governance practices established in the Company.	Group	16	Principle 10
GRI 206 Anti-competitive Behaviour <i>Non-material issue for the Euskaltel Group.</i>					
206-1	Legal actions for anti-competitive behavior, anti-trust and monopoly practices	No official judgements or decisions were issued that affect the company in this regard.	Group	16	
GRI 301 Materials <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 4.</i>					
301-1	Materials used by weight or volume	Natural Capital (p. 61)	Group	8 12	
301-2	Recycled input materials used	<ul style="list-style-type: none"> • Purchase of refurbished customer equipment vs. total equipment purchased: 2.10% in 2018. • Use of recycled paper vs. total paper used in all utilities: 1.70% in 2018. See appendix 301-2 (p. 101). • Reconditioned customer equipment vs. total equipment placed on the market was 63.84% (See 301-3). 	Group	8 12	Principle 7 and 8
301-3	Reclaimed products and their packaging materials	Natural Capital (p. 60) See Appendix 301-3 (p. 101)	Group	8 12	Principle 7, 8 and 9
GRI 302 Energy <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 4.</i>					
302-1	Energy consumption within the organisation	Natural Capital (p. 61)	Group	7 8 12 13	Principle 7 and 8
302-2	Energy consumption outside the organisation	Natural Capital (p. 61)	Group	7 8 12 13	Principle 7 and 8
302-3	Energy intensity	Natural Capital (p. 61)	Group	7 8 12 13	Principle 8

Standards	Description	Observations/direct reference (page)	Scope	SDG	Global Compact
GRI 302 Energy <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 4.</i>					
302-4	Reduction of energy consumption	<p>Natural Capital (p. 61)</p> <p>The Euskaltel Group has defined an energy efficiency plan for 2018, setting out the measures for saving both electricity and fuel. This plan foresees the following actions:</p> <ul style="list-style-type: none"> • Rational use of lighting at central offices, with automatic shut-off features (at data processing centres) and continuation of other features (hallways and offices) • Installation of more energy-efficient equipment at the data-processing centres (servers) and consolidation of existing services. • Rational use of vehicles for work-related travel and travel between the different Euskaltel Group locations • Use of videoconferences for meetings between different Group locations, avoiding long-distance travel. <p>Energy consumption has increased compared with 2017. However, energy intensity has decreased by 4.2 due to the rise in customer products.</p>	Group		Principle 7, 8 and 9
302-5	Reduction in energy requirements of products and services	The consumption requirements of customer equipment are taken into account when these are officially approved (Group).	Group		Principle 7, 8 and 9
GRI 303 Water <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 4.</i>					
303-1	Water consumption by source	<p>Natural Capital (p. 61)</p> <p>El agua consumida proviene de la red de abastecimiento del Consorcio de Aguas del Gran Bilbao en el caso de Euskaltel y en el caso de R de las redes de la Empresa municipal de aguas de la Coruña S.A., Aqualia and Viaqua, dependiendo de la ubicación de los centros de trabajo. En el caso de Telecable, el agua procede de la Empresa Municipal de Aguas de Gijón S.A. en el caso de los edificios del Parque Tecnológico de Gijón; and en el caso del CPD de Oviedo de la red gestionada por FCC Aqualia, Concesionaria del Servicio de Agua and Saneamiento de Oviedo.</p>	Group		Principle 7 and 8
303-2	Sources of water significantly impacted by water extraction	During 2018, no water sources were significantly affected by withdrawal of water by the Group.	Group		Principle 7 and 8
303-3	Agua reciclada and reutilizada	No recycled or reused water is used or consumed.	Group		Principle 8 and 9
GRI 304 Biodiversity <i>Non-material issue for the Euskaltel Group.</i>					
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas of high biodiversity value and areas outside protected areas	The Euskaltel Group does not own any land in areas of high biodiversity value. During 2018, no impacts were recorded in respect of biodiversity in protected, heritage or biosphere reserve areas. Consequently, no impacts occurred in areas serving as habitats to species at risk of extinction.	Group		Principle 8
304-2	Significant impacts of activities, products and services on biodiversity		Group		Principle 8
304-3	Habitats protected or restored		Group		Principle 8

Standards	Description	Observations/direct reference (page)	Scope	SDG	Global Compact
GRI 304 Biodiversity <i>Non-material issue for the Euskaltel Group.</i>					
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	The Euskaltel Group does not own any land in areas of high biodiversity value. During 2018, no impacts were recorded in respect of biodiversity in protected, heritage or biosphere reserve areas. Consequently, no impacts occurred in areas serving as habitats to species at risk of extinction.	Group	  	Principle 8
GRI 305 Emissions <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 4.</i>					
305-1	Direct GHG (Scope 1) emissions	Natural Capital (p. 61) The emission sources considered in scope 1 are: use of fuel in generators and by company vehicles during work trips, plus emissions of fluorinated greenhouse gases. This also includes natural gas consumed by Telecabé. See appendix 305-1 (p. 101)	Group	    	Principle 7, 8 and 9
305-2	Indirect GHG (Scope 2) emissions	Natural Capital (p. 61) The emission source considered in scope 2 is electricity consumption. See Appendix 305-2 (p. 101)	Group	    	Principle 7, 8 and 9
305-3	Other emissions Indirect GHG (Scope 3)	Natural Capital (p. 61) The emission sources considered in scope 3 are: fuel consumption derived from the use of non-Group means of transport used in business travel (employee-owned cars, aeroplanes, trains, taxis). See Appendix 305-3 (p. 101)	Group	    	Principle 8
305-4	Intensity of GHG emissions	Natural Capital (p. 61) Emission intensity is calculated without taking into account Scope 3 with respect to the total number of products. 2.4M in 2016, 2.9M in 2017 and 2.9M in 2018. See Appendix 305-4 (p. 101)	Group	   	Principle 8 and 9
305-5	Reduction in GHG emissions	Natural Capital (p. 58 and 61)	Group	  	Principle 8 and 9
305-6	Emissions of ozone-depleting substances	The Euskaltel Group does not produce, import or export gases that deplete the ozone layer. Since 2012, Euskaltel has implemented a plan to replace R-22 gases, whereby whenever a leak of this type of gas occurs, the equipment is either retired or recharged with other refrigerant gases that do not affect the ozone layer (R-434.A or R-424.A).	Group	  	Principle 8 and 9
305-7	NOx, SOx and other significant air emissions	See Appendix 305-7 (p. 101)	Group	    	Principle 8 and 9
GRI 306 Effluents and waste <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 4.</i>					
306-1	Water discharge by quality and destination	The Euskaltel Group does not discharge industrial waste water. Sanitary and sewage water is discharged to the Consorcio de Aguas del Gran Bilbao water treatment system, in the case of Euskaltel, and to the Empresa Municipal de Aguas de la Coruña S.A., Aqualia and Viaqua networks for R, depending on the location of each work centre. Telecabé discharges sanitary water into the waste treatment system of Empresa Municipal de Aguas de Gijón S.A. in the case of buildings at the Parque Tecnológico de Gijón, and the treatment network of FCC Aqualia, Concesionaria del Servicio de Agua y Saneamiento de Oviedo, in the case of the Oviedo DPC.	Group	   	Principle 7 and 8
306-2	Waste by type and disposal method	Natural Capital (p. 61)	Group	  	Principle 7 and 8
306-3	Significant spills	There have been no accidental spills in 2018.	Group	    	Principle 8

Standards	Description	Observations/direct reference (page)	Scope	SDG	Global Compact												
GRI 306 Effluents and waste <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 4.</i>																	
306-4	Transport of hazardous waste	All hazardous waste, including used lead batteries, is collected by authorised waste management companies, primarily in the Basque Country, Galicia and Asturias and, in certain cases, in other regions of Spain. No hazardous waste has been shipped internationally.	Group	3 12	Principle 8												
306-5	Water bodies affected by discharges and run offs	During 2018, the Group did not discharge any water affecting.	Group	6 14 15	Principle 8												
GRI 307 Environmental compliance <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 4.</i>																	
307-1	Non-compliance with environmental laws and regulations	During 2018, no significant fines were received in this connection. Claims of an environmental nature are indicated in 103-2	Group	16	Principle 7 and 8												
GRI 308 Supplier Environmental Assessment <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapters 5.</i>																	
308-1	New suppliers that were screened using environmental criteria	The supplier evaluation includes environmental criteria and is carried out by the Quality, Environment, Welfare and Health Department, given that the matters assessed in the regular evaluation include the results of the internal management system audits and the existence of an environmental management system, particularly for suppliers with a higher influence on the appraisal of the Group's environmental matters. Currently, efforts are being made to expand the environmental management system policies to all Group companies in 2018.	Group	12	Principle 9												
308-2	Negative environmental impacts in the supply chain and actions taken	Based on the evaluations performed, the Euskaltel Group has not detected any supplier having significant negative environmental impacts.	Group	12	Principle 9												
GRI 401 Employment <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 2.</i>																	
401-1	New employee hires and employee turnover	See Appendix 401-1 (p. 102)	Group	5 8	Principle 6												
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Human capital (p. 38 and 39) All Group workers and their immediate family members may access medical services in advantageous conditions.	Group	8	Principle 6												
401-3	Parental leave	Figures for employees taking parental leave in recent years are as follows: <table><tr><td></td><td>2016</td><td>2016</td><td>2018</td></tr><tr><td>Men</td><td>11</td><td>13</td><td>10</td></tr><tr><td>Women</td><td>8</td><td>9</td><td>7</td></tr></table> The 17 employees returned at the end of their parental leave.		2016	2016	2018	Men	11	13	10	Women	8	9	7	Group	5 8	Principle 6
	2016	2016	2018														
Men	11	13	10														
Women	8	9	7														
GRI 402 Labour management relations <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 2.</i>																	
402-1	Minimal notice periods regarding operational changes	In general, operational changes are reported to the affected persons and the affected area prior to reflecting them on the official company organisational chart posted on the intranet.	Group	8	Principle 3												
GRI 403 Occupational health and safety <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 2.</i>																	
403-1	Worker representation in joint health and safety committees	There is a Health and Safety Committee in each company, which represents 100% of the Group's workforce.	Group	3 8													

Standards	Description	Observations/direct reference (page)	Scope	SDG	Global Compact												
GRI 403 Occupational health and safety <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 2.</i>																	
403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities	Human capital (p. 39) See Appendix 403-2 (p. 102) There have been no deaths due to accident or occupational disease in the last three years.	Group	3 8													
403-3	Workers with high incidence or high risk of diseases related to their occupation	No professional activities or job positions within the Group companies have been identified as having a high incidence or high risk of work-related illness.	Group	3 8													
403-4	Health and safety topics covered in formal agreements with trade unions	Human capital (p. 38 and 39) The labour agreements by which the three Group companies are governed contain a specific chapter on Health and Safety at work. Therefore, the percentage is 100%.	Group	3 8													
GRI 404 Training and education <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 2.</i>																	
404-1	Average hours of training per year per employee	Human capital (p. 37) The average number of hours training by position and gender expressed in the following table: <table><tr><td></td><td>Executives</td><td>Managers</td><td>Other professionals</td></tr><tr><td>Men</td><td>110.77</td><td>86.08</td><td>33.26</td></tr><tr><td>Women</td><td>99.65</td><td>146.18</td><td>35.31</td></tr></table>		Executives	Managers	Other professionals	Men	110.77	86.08	33.26	Women	99.65	146.18	35.31	Group	4 5 8	Principle 6
	Executives	Managers	Other professionals														
Men	110.77	86.08	33.26														
Women	99.65	146.18	35.31														
404-2	Programs for upgrading employee skills and transition assistance programs	Human capital (p. 36 and 37)	Group	4 8													
404-3	Percentage of employees receiving regular performance and career development reviews	Human capital (p. 29)	K and R	5 8	Principle 6												
GRI 405 Diversity and equal opportunity <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 2.</i>																	
405-1	Diversity of governance bodies and employees	Organisational and Cultural Capital (p. 23) Human capital (p. 34 and 35) See Appendix 405-1 (p. 102)	Group	5 8 10	Principle 6												
405-2	Ratio of basic salary and remuneration of women to men	In line with the Group's people management policy, salaries are determined on an individual basis; that is, each person is compensated in line with the responsibility assigned, their performance and their contribution of value to the company. No differences are established in respect of gender, age or other such factors.	Group	5 8 10	Principle 6												
GRI 406 Non discrimination <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 2.</i>																	
406-1	Incidents of discrimination and corrective actions taken	In 2018, there were no incidents of discrimination or Group violation of Human Rights.	Group	5 8 16	Principle 6												
GRI 407 Freedom of association and collective bargaining <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 2.</i>																	
407-1	Operations or suppliers in which freedom of association and collective bargaining may be at risk	Human capital (p. 34) The Group's business and purchasing volume are essentially local, so there is no significant risk of infringement.	Group	8 16	Principle 3												

Standards	Description	Observations/direct reference (page)	Scope	SDG	Global Compact
GRI 408 Child Labour <i>Non-material issue for the Euskaltel Group.</i>					
408-1	Operations and suppliers at significant risk for incidents of child exploitation	Prevailing legislation guarantees this right. Article 6 of the Workers' Statute prohibits the employment of minors.	Group	8 16	Principle 5
GRI 409 Forced or compulsory labour <i>Non-material issue for the Euskaltel Group.</i>					
409-1	Operations and suppliers at significant risk for incidents of forced labour	Prevailing legislation guarantees this right. Employment must be offered freely, and employees must be free to leave their employment whenever they choose. Article 49 of the Employment Statute acknowledges the right of employees to leave their employment voluntarily whenever they choose to do so.	Group	8 16	Principle 4
GRI 410 Security practices <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 2.</i>					
410-1	Security personnel trained in Human Rights policies or procedures	100% of the Euskaltel Group security personnel are duly identified and have received the requisite training in respect of Euskaltel's internal procedures and rules, the systems and equipment used, first aid and data protection.	Group	16	Principle 1 and 2
GRI 411 Rights of indigenous peoples <i>Non-material issue for the Euskaltel Group.</i>					
411-1	Incidents of violations involving rights of indigenous peoples and actions taken	In 2018, no groups of indigenous peoples were affected by the Group's activity.	Group	11 16	Principle 1
GRI 412 Human Rights assessment <i>Topic discussed in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 1.</i>					
412-1	Operations that have been subject to human right reviews or impact assessments	All Euskaltel Group centres are regularly inspected to ensure that occupational health and safety conditions are optimal.	Group	11 16	Principle 1
412-2	Employee training on human rights policies or procedures	Organisational and Cultural Capital (p. 15)	Group		Principle 1 and 2
412-3	Significant investment agreements and contracts that include human right clauses or that underwent human rights screening	There are no significant investment agreements that include Human Rights clauses or that have been subject to Human Rights analysis, with the exception of legal compliance in matters of security.	Group		Principle 1 and 2
GRI 413 Local Communities <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 5.</i>					
413-1	Operations with local community engagement, impact assessment and development programmes	Relationships (p. 67-73)	Group	11	Principle 1
413-2	Operations with significant actual and potential negative impacts, on local communities	The Euskaltel Group does not have operations centres that have or might have negative impacts on local communities.	Group	1 2 11	Principle 1
GRI 414 Supplier Social Assessment <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapter 5.</i>					
414-1	New suppliers were screened using social criteria	Given that suppliers are evaluated in respect of key corporate risks, the Group does not deem it necessary to conduct a further analysis focused on labour practices.	Group	5 8 16	Principle 2
414-2	Negative social impact in the supply chain and actions taken	The Group does not deem it necessary to conduct a further analysis focused on its social repercussion.	Group	5 8 16	Principle 2
GRI 415 Public Policy <i>Non-material issue for the Euskaltel Group.</i>					
415-1	Political contributions	The Euskaltel Group does not make contributions to political parties or their candidates.	Group		Principle 10

Standards	Description	Observations/direct reference (page)	Scope	SDG	Global Compact
GRI 416 Customer health and safety <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation included in Chapters 1 and 3.</i>					
416-1	Evaluation of the health and safety impacts of product and service categories	The Euskaltel Group is responsible for marketing equipment manufactured by third parties, ensuring that the equipment it acquires and sells complies with current legislation on electromagnetic fields.	Group	12	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	No fines or penalties were received in this respect.	Group	16	
GRI 417 Marketing and labelling <i>Topic discussed in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation described in Chapters 3.</i>					
417-1	Requirements for product and service information and labelling	All products provided by the Euskaltel Group are certified and meet the requirements set by different national and international bodies. The company complies with legal requirements regarding packaging labelling, in accordance with Law 11/1997 on packaging and packaging waste. All labels state that the company complies with prevailing legislation and that it contributes to the future management of waste generated by packaging. The Company also cooperates with the integrated management system organisation Ecoembes for this type of waste.	Group	12	
417-2	Incidents of non-compliance concerning product and service information and labelling	No fines or penalties were received in this respect.	Group	16	
417-3	Incidents of non compliance concerning communications	In 2018 Euskaltel received a penalty from the Secretary of State for Digital Progress due the nonfulfillment of the obligation to include certain price-related information in contracts for an amount of €39,000.	Group	16	
GRI 418 Customer privacy <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation included in Chapters 1 and 3.</i>					
418-1	Substantial complaints related to breaches of customer privacy and loss of customer data	No duly-grounded complaints of this kind were received- in 2018.	Group	16	Group
GRI 419 Socio-economic compliance <i>Topic included in the materiality analysis and in the 2016-2018 CSR Plan of the Euskaltel Group. Management approach and evaluation included in Chapters 1 and 3.</i>					
419-1	Non-compliance with laws and regulations in the social and economic area	In 2018 the Secretary of State for Digital Progress initiated two disciplinary actions against Euskaltel due to its failure to comply with the deadline for managing cancellations of landline telephony services, involving a fine of €136,500, and mobile telephony services, involving a fine of €73,500. Claims received through consumer organisations are disclosed in the Appendix (p. 101).	Group	16	

GRI Standards Appendix

102-8 Employee information

Category	2016			2017			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Executives	48	9	57	34	8	42	33	7	40
Management	66	34	100	34	16	50	31	15	46
Other Professionals	182	188	370	342	271	613	345	266	611
TOTAL	296	231	527	410	295	705	409	288	697

301-2 Recycled input materials used

	2016	2017	2018
Percentage	3.3%	2.8%	1.7%

301-3 Reclaimed products and their packaging materials

	2016	2017	2018
Percentage	35.5%	43.0%	63.8

305-1,2,3,4 Emissions

		2016	2017	2018	Unidades
Direct GHG (Scope 1)	CO ₂ (*)	147.46	161.00	200.99	t. CO ₂ eq.
	CH ₄ (*)	0.19	0.17	0.24	t. CO ₂ eq.
	N ₂ O (*)	1.94	1.60	2.41	t. CO ₂ eq.
	HFC (*) (**)	766.24	1,022.09	1,087.48	t. CO ₂ eq.
	PFC (*) (**)	0.00	0.00	0.00	t. CO ₂ eq.
	SF ₆ (*) (**)	0.00	0.00	0.00	t. CO ₂ eq.
Indirect GHG (Scope 2)	CO ₂ (*)	9,479.44	21,893.41	23,117.53	t. CO ₂ eq.
Intensity of GHG emissions	CO ₂	4.49	7.98	8.30	kg. CO ₂ e./prod.
GHG emissions (Scope 3)	CO ₂	259.60	320.40	320.97	t. CO ₂ eq.

* To calculate GHG emissions the method and conversions of the Ithobe Stop CO2 tool are used.

** To calculate HCFC, HFC and SF6 emissions in equivalent CO2 tonnes, the Atmospheric Heating Potential (AHP) published in European Regulation (EC) 517/2014 are used.

Environmental investment

	2016	2017	2018
Waste management (managers and media)	23,222	16,933	42,696
Consultancies and audits	14,728	9,881	5,471
TOTAL	37,950	26,814	48,167

305-7 Other significant atmospheric emissions (tonnes)

		2016	2017	2018
Other emissions in air	SO ₂	0.0008	0.0007	0.0009
	NO _x	0.6066	0.5719	0.7200
	Solid particles	0.0515	0.0485	0.0611

To calculate SO₂, NO_x and PM emissions, data included in the European Environment Agency Guide "EMEP / EEA air pollutant emission inventory guidebook 2013" are used.

Claims Euskaltel Group*

	2016	2017*	2018
Residential	874	1,220	1,033
Consumer Institutes and Offices and Consumer Associations	826	1,111	956
SESIAD	48	109	77
Empresarial	76	122	88
Consumer Institutes and Offices and Consumer Associations	66	101	75
SESIAD**	10	21	13
TOTAL	950	1,342	1,121

* Teleable claim data is included as from 1 January 2017

** SESIAD: Secretary of State for the Information Society and Digital Agenda

In 2018, one person with functional diversity worked in the Euskaltel Group

401-1 New employee hires and employee turnover

	Under 30		31 to 50		More than 50	
	Men	Women	Men	Women	Men	Women
2016	3	0	0	0	2	0
2017	16	8	6	8	1	0
2018	4	2	17	6	4	0

External turnover index for 2018 by gender and age

	Under 30		31 to 50		More than 50	
	Men	Women	Men	Women	Men	Women
2016	1	0	7	3	7	0
2017	3	3	16	8	13	2
2018	2	2	14	9	10	1

Men Women

Euskaltel Group suppliers

Company / Location	Suppliers	Local Suppliers	% Local Suppliers	% Purchase volume
Euskaltel / Basque Country	430	200	46.5%	58.2%
R / Galicia	365	149	40.8%	28.6%
Telecable / Asturias	211	68	32.2%	13.3%
Group Euskaltel / Other regions	352	NA	NA	51.5%

** The sum of the local suppliers for each of the three companies individually (Euskaltel, R and Telecable) would be 417, as can be seen in the table. However, the local supplier total is 429 since there are 12 suppliers that offer support at the Group level.

403-2 Types of accidents and rates of accidents at work, occupational diseases, days lost, and absenteeism

	Euskaltel absenteeism		R absenteeism		Telecable absenteeism		Total Group absenteeism	
	Men	Women	Men	Women	Men	Women	Men	Women
2016	1.53	3.48	1.08	2.33	---	---	1.32	3.15
2017	1.23	3.43	1.39	2.08	1.99	2.12	1.51	2.86
2018	1.02	1.54	0.35	2.02	2.06	2.19	1.17	1.77

Accident seriousness and frequency rates in the Euskaltel Group by year and gender

	2016			2017			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Seriousness rate	0.00	0.00	0.00	0.00	0.09	0.04	0.00	0.16	0.07
Frequency rate	0.00	0.00	0.00	0.00	2.00	0.83	0.00	2.02	0.83

Men Women

405-1 Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity

		2016		2017		2018		Var. 2016-2018 by gender and age	
		Men	Women	Men	Women	Men	Women	Men	Women
>50	Men	25	10	23	46	12	20	57	16
	Women	10	0	2	17	0	1	25	2
31-50	Men	152	56	25	277	22	14	273	15
	Women	173	34	7	244	16	7	231	13
≤30	Men	5	0	0	19	0	0	15	0
	Women	5	0	0	10	0	0	10	0

Collective Agreement personnel Managers Executives

Contents required by Law 11/2018 of 28 December, which amended the Commercial Code, the revised Companies Act approved by Legislative Royal Decree 1/2010 of 2 July and Law 22/2015 of 20 July on Auditing, with respect to non-financial information and diversity.

Contents under Law 11/2018 INF		Standard used	Chapter of the report
Business Model	Description of Group's Business Model	GRI 102-2, 102-4, 102-6, 102-7, 102-15	1. Organisational and Cultural Capital
	Policies	GRI 103-2, 103-3	
Information on environmental issues	Main Risks	GRI 102-11, 102-15, 102-30, 201-2	4. Natural Capital GRI Table (The environmental information is furnished on the basis of materiality, so no details are included on aspects such as noise, light pollution, food waste or biodiversity.)
	General	GRI 102-11, 102-15, 102-29, 102-30, 102-31, 307-1	
	Pollution	GRI 103-2, 302-4, 302-5, 305-5, 305-7	
	Circular economy and waste prevention and management	GRI 103-2, 301-1, 301-2, 301-3, 303-3, 306-1, 306-2, 306-3	
	Sustainable use of resources	GRI 102-2, 103-2, 301-1, 301-2, 301-3, 302-1, 302-2, 302-3, 302-4, 302-5, 303-1, 303-2, 303-3	
	Climate Change	GRI 102-15, 103-2, 201-2, 305-1, 305-2, 305-3, 305-4, 305-5	
	Protection of biodiversity	GRI 103-2, 304-1, 304-2, 304-3, 304-4	
	Policies	GRI 102-35, 103-2, 103-3	
Information on social and personnel issues	Main Risks	GRI 102-15, 102-30	2. Capital Humano GRI Table Tables Law 11/2018
	Employment	GRI 102-7, 102-8, 102-35, 102-36, 103-2, 201-3, 202-1, 401-1, 401-3, 403-2, 405-1, 405-2	
	Health and safety	GRI 103-2, 403-2, 403-3, 405-2	
	Social Relation	GRI 102-41, 102-43, 402-1, 403-1, 403-4	
	Training	GRI 103-2, 404-1, 404-2	
	Accessibility	GRI 103-2	
	Equality	GRI 103-2, 404-2, 406-1	
	Policies	GRI 103-2, 103-3, 410-1, 412-2	
Information on respect for human rights	Main Risks	GRI 102-15, 102-30	1. Organisational and Cultural Capital
	Human rights	GRI 102-17, 103-2, 406-1, 407-1, 408-1, 409-1, 410-1, 411-1, 412-1, 414-2, 419-1	
	Policies	GRI 103-2, 103-3, 205-2	
Information related to the fight against corruption and bribery	Main Risks	GRI 102-15, 102-30, 205-1	1. Organisational and Cultural Capital
	Corruption and bribery	GRI 103-2, 201-1, 203-2, 415-1	
	Policies	GRI 103-2, 103-3	
Information on company	Main Risks	GRI 102-15, 102-30	5. Relationships
	The Company's commitment to sustainable development	GRI 102-13, 102-43, 201-1, 203-1, 203-2, 204-1, 413-1, 413-2	
	Subcontractors and suppliers	GRI 102-9, 103-3, 308-1, 308-2, 407-1, 409-1, 414-1, 414-2	
	Consumers	GRI 102-17, 103-2, 416-1, 416-2, 417-1, 418-1	
	Tax information	GRI 201-1, 201-4	

Tables Law 11/2018

Breakdown of involuntary sick leave by professional category, gender and age

Men	Euskaltel	R	Telecable	Group
Executives				
≤ 30	0	0	0	0
31 > 50	0	1	0	1
> 50	1	2	1	4
Management				
≤ 30	0	0	0	0
31 > 50	0	1	0	1
> 50	2	0	0	2
Other professionals				
≤ 30	0	2	0	2
31 > 50	2	6	4	12
> 50	3	0	1	4
Total Men	8	12	6	26
Women				
Directivas				
≤ 30	0	0	0	0
31 > 50	0	0	1	1
> 50	0	0	0	0
Management				
≤ 30	0	0	0	0
31 > 50	0	0	0	0
> 50	1	0	0	1
Other professionals				
≤ 30	1	0	1	2
31 > 50	2	5	1	8
> 50	0	0	0	0
Total Women	4	5	3	12
TOTAL WORKFORCE	12	17	9	38

Desglose de las remuneraciones medias por categoría profesional, sexo and edad

Men	Euskaltel	R	Telecable	Group
Executives				
≤ 30	-	-	-	-
31 > 50	129,567.04	192,821.93	166,044.86	146,189.16
> 50	144,943.98	-	173,851.17	149,073.58
Management				
≤ 30	-	-	-	-
31 > 50	76,826.56	85,384.63	-	79,679.25
> 50	81,627.25	100,501.31	-	87,525.39
Other professionals				
≤ 30	26,153.97	27,849.39	23,032.55	26,528.98
31 > 50	49,226.27	46,588.21	45,657.70	47,072.71
> 50	58,501.18	54,460.33	46,568.22	54,439.33
Total Men	80,978.04	84,600.97	91,030.90	84,358.34
Women				
Directivas				
≤ 30	-	-	-	-
31 > 50	128,385.74	-	-	128,385.74
> 50	-	-	-	-
Management				
≤ 30	-	-	-	-
31 > 50	72,257.30	68,474.07	-	71,675.26
> 50	64,883.17	-	-	64,883.17
Other professionals				
≤ 30	28,897.57	25,517.56	35,016.75	28,431.40
31 > 50	41,362.63	39,322.31	46,943.07	41,930.95
> 50	47,554.65	46,716.40	50,177.19	48,360.33
Total Women	63,890.18	45,007.59	44,045.67	42,629.65
TOTAL WORKFORCE	72,434.11	64,804.28	67,538.29	63,494.00

For the calculation of average salaries, both fixed and variable salaries are taken into account, excluding bonuses.

The salary gap reflected by the results is in line with the industry. Traditionally there have been more men in the Group's senior categories, due to their longer average length of service compared with women. However, in the technical categories of personnel covered by the Collective Agreement the salary gap is -7% and different initiatives are supported in collaboration with universities and educational centre to encourage the inclusion of women in the telecommunication field.

The blank boxes indicate that there are no employees of either gender in the corresponding professional category.

Breakdown of contract type by professional category, gender and age




















No. permanent contracts					No. temporary contracts			
Men	Euskaltel	R	Telecable	Group	Euskaltel	R	Telecable	Group
Executives								
≤ 30	0	0	0	0	0	0	0	0
31 > 50	8	2	2	12	0	0	0	0
> 50	18	0	3	21	0	0	0	0
Management								
≤ 30	0	0	0	0	0	0	0	0
31 > 50	10	5	0	15	0	0	0	0
> 50	11	5	0	16	0	0	0	0
Other professionals								
≤ 30	4	2	2	8	2	5	0	7
31 > 50	84	92	96	272	0	1	0	1
> 50	29	13	15	57	0	0	0	0
Total Men	164	119	118	401	2	6	0	8
Women								
Directivas								
≤ 30	0	0	0	0	0	0	0	0
31 > 50	7	0	0	7	0	0	0	0
> 50	0	0	0	0	0	0	0	0
Management								
≤ 30	0	0	0	0	0	0	0	0
31 > 50	11	2	0	13	0	0	0	0
> 50	1	0	0	1	0	0	0	0
Otras profesionales								
≤ 30	3	3	2	8	0	2	0	2
31 > 50	131	56	44	231	0	0	0	0
> 50	16	1	8	25	0	0	0	0
Total Women	170	62	54	286	0	2	0	2
TOTAL WORKFORCE	334	181	172	687	2	8	0	10

All of the Group's contracts are full-time, except for one man over 50 years of age working part-time in Telecable.

Total hours of training by professional category

	Executives	Management	Other professionals
Men	3,655.5	2,668.5	11,474
Women	697.5	2,192.8	9,393

Monitoring of the CSR Master Plan 2016-2018

Line	Achievement
Relationship with the Board and shareholders	
Transparency, veracity, immediacy, consistency, equality and symmetry in the disclosure of information	
Working with shareholders so that information practices and relationships with the markets are transparent, efficient and in line with corporate interests	
People	
Training and collaboration with educational centres and universities	
Remuneration policy and self-evaluation	
Suppliers	
Relationship model with the supply chain	
Application of responsible purchasing management policies	
Customers (Corporate and Residential)	
Caring for disadvantaged customers	
Confidentiality and service quality	
Environment	
Excellence in environmental management (Green Organisation)	
Legal compliance (Green Compliance)	
Communication of environmental performance (Green Communication)	
Responsible payment of taxes	
Responsible and ethical compliance with tax commitments	
Maintenance of transparent structures and mechanisms	
Corporate governance	
Organisation and Management Model	
Transparency	
Responsible communication	
Visibility and social involvement of CSR Master Plan 2016-2018	
Disclosure and Communication	
Contribution to society	
"Proximity and consistency in the Euskaltel Group's corporate messages"	
Management tools oriented towards stakeholders	

* The Group is currently working on the preparation of the CSR Master Plan 2019-2022.

Degree of compliance with the commitments undertaken

 Fulfilled
  Advanced
  In progress
  Initiating measures

GROUP EUSKALTEL

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Euskaltel

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R

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Telecable

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Derio, 27 February 2019

In compliance with prevailing legislation, the directors of Euskaltel, S.A. have authorised for issue the consolidated annual accounts (comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto) and the consolidated directors' report (which includes the non-financial information statement) for the period ended 31 December 2018.

The directors declare that they have signed each of the above-mentioned documents in their own hand, and in witness thereof sign below.

Signed:

Mr. Alberto García Erauzkin
(Chairman)

Mr. Francisco Manuel Arteche Fernández-Miranda
(Chief Executive Officer)

Mr. José Ángel Corres Abasolo
(Vice Chairman)

Kartera 1, S.L., represented by
Ms. Alicia Vivanco González
(Board member)

Mr. Luis Ramón Arrieta Durana
(Board member)

Mr. Robert W. Samuelson
(Board member)

Corporación Financiera Alba, S.A.,
represented by
Mr. Javier Fernández Alonso
(Board member)

Ms. Belén Amatriain Corbi
(Board member)

Mr. Iñaki Alzaga Etxeita
(Board member)

Ms. Elisabetta Castiglioni
(Board member)

Mr. Miguel Ángel Lujua Murga
(Board member)

Mr. Jon James
(Board member)